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ESS WEEK
January 10

BusinessWeek

JANUARY 10, 1994 A MCGRAW-HILL PUBLICATION \$2.75



WHAT'S AHEAD
AMERICA'S 25 KEY INDUSTRIES

INDUSTRY

1994

OUTLOOK

COMPUTERS SOFTWARE BANKING CHEMICALS
SEMICONDUCTORS HEALTH CARE AGRICULTURE
AUTOS MACHINERY ENTERTAINMENT ENERGY
SECURITIES RETAILING TRANSPORTATION
WHOLESALE REAL ESTATE
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COUNTRY	Rate	Change
Americas	104.30	- 0.51
Canada	135.42	- 0.32
U.S.	109.33	- 0.24
Europe	115.85	- 0.32
Belgium	124.56	- 1.05
France	115.60	- 1.37
Germany	129.08	- 0.45
Italy	127.72	- 0.45
Netherlands	127.73	- 0.45
Spain	149.51	- 0.34
Switzerland	125.16	- 0.58
United Kingdom	115.46	- 0.31
Asia/Pacific	169.96	- 0.30
Australia	99.29	- 0.40
Hong Kong	177.49	- 0.37
Japan	135.05	- 0.40
Malaysia	135.54	- 0.40
New Zealand	99.29	- 0.40
Singapore	177.49	- 0.37

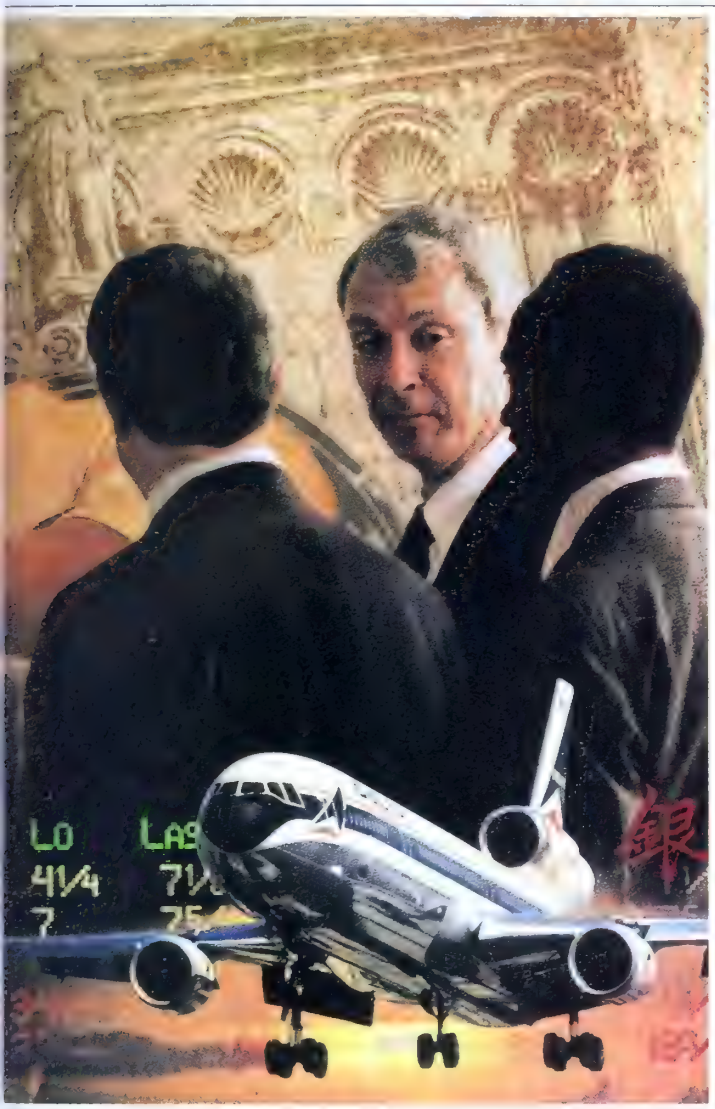
Stock Market Tickers (Approximate Values):

LAST	CHG
71 1/8	+ 7/8
75 1/8	+ 1/8
54 1/2	+ 15 3/4
48 3/8	+ 2 5/8

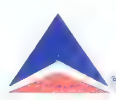
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722	520
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1994 INDUSTRY OUTLOOK

Introduction

60 STEADY AS SHE GOES

Economic growth next year won't be of the rip-roaring variety, but it should come in around 4%, which is nothing to sneeze at

62 EXPORTS LOOM EVER LARGER

66 THE BABY BOOMLET KICKS IN

67 BUSINESS WEEK/HARRIS POLL

Manufacturing

71 AUTOS

Value will keep Detroit moving

72 DEFENSE

Cost-cutting won't hurt (it won't)

73 MACHINERY

No rust on this market

74 STEEL

Big Steel's big chance for a big year

76 CHEMICALS

Lean, mean, and...healthier?

78 FOOD PROCESSING

More cost cuts should beef up profits

High Technology

81 COMPUTERS

Minis and mainframes bite the dust

82 SOFTWARE

More growth—and more hardball

83 SEMICONDUCTORS

The party's not over yet

84 TELECOMMUNICATIONS

A mating season all year 'round

85 PHARMACEUTICALS

A big dose of uncertainty

Natural Resources

87 ENERGY

Oil prices: High enough for black ink

88 AGRICULTURE

Biggest disasters, it's a slow time

90 FOREST PRODUCTS

Splinters, splinters everywhere

Services

95 RETAILING

In the '90s, it's be quick or be dead

96 WHOLESALING

Cut out the middleman? Never

97 HEALTH CARE

Prepping for radical surgery

98 TRANSPORTATION

Better keep those seatbelts fastened

99 RESTAURANTS

Fat City? Fat chance

100 UTILITIES

Danger: Competition dead ahead

101 ENTERTAINMENT

As profits soar, everyone's shopping

Finance

103 BANKING

Profits will come, but not as easily

106 INSURANCE

A little feast, a little famine

107 SECURITIES

Wall Street is still on Easy Street

108 REAL ESTATE

Low rates signal a time of rebuilding

Top of the News

8 THE MOSCOW SUMMIT

After the parliamentary success of Communists and ultranationalists such as Vladimir Zhirinovskiy, what can Clinton do to help Yeltsin keep Russia on the path to reform?

0 ATTACK OF THE KILLER BRANDS

Western consumer-goods giants, including RJR Nabisco, Colgate, Coke, Procter & Gamble, and Johnson & Johnson, are battling for Muscovites' rubles

11 NOT SO FAST, BARRY

Paramount isn't Diller's yet. Sumner Redstone could still top QVC's bid and retain control of Viacom

2 CLUB FED

The central bank is a bastion of white male economic thinkers. Now, as it seeks to replace a governor, its lack of diversity is coming under congressional scrutiny

3 COMMENTARY

The Information Age isn't just for the elite, but universal access may require more than just a free market

4 COMMENTARY

Senior Writer John Byrne's personal remembrance of W. Edwards Deming, the godfather of quality

5 "MINDLESS" SCHOOLS

Innovative educator Theodore Sizer has a \$50 million mandate from philanthropist Walter Annenberg to showcase his reform agenda

6 WHAT CHRISTMAS CHEER?

Despite the December shopping spree, many troubled retailers still have little to celebrate

8 IN BUSINESS THIS WEEK

Oracle Systems, "emergency" chip talks between the U.S. and Japan, Banesto, Ford execs for Mazda, the Writers Union and the Information Highway, the Steelworkers

International Business

2 JAPAN

The ties that bind industry and its parts suppliers start to weaken as the *keiretsu* look abroad

5 INTERNATIONAL OUTLOOK

Algeria: With Islamic fundamentalists fighting the government, a storm is brewing in the Mediterranean

THE BEST OF 1993

111 THE BEST OF EVERYTHING: BUSINESS WEEK SALUTES THE MOST NOTABLE PRODUCTS, MANAGERS, ENTREPRENEURS, AND EVENTS OF '93



52 JAPAN INC. DOES THE UNTHINKABLE: ALREADY HURT BY THE RECESSION, SUPPLIERS REEL AS THE GIANTS—GAASP!—START BUYING ABROAD



38 BILL AND BORIS' STICKY SUMMIT: THEIR JAN. 12-15 MEETING WILL BE FAR FROM THE TRIUMPH CLINTON ENVISIONED

Economic Analysis

23 ECONOMIC TRENDS

Job growth and state economies, hard-hit homeowners, the East Asian trade bloc, universal health care

26 ECONOMIC VIEWPOINT

Dornbusch: Clinton's economic program so far is a rousing success—four hits, no misses

35 BUSINESS OUTLOOK

Consumers aren't the only ones whipping out their checkbooks—business is spending big, too

Government

51 WASHINGTON OUTLOOK

The Mouths that Roar become the Mouths that Run as just about every right-wing talk-show host but Rush Limbaugh decides to seek office

Finance

57 INSIDE WALL STREET

Corporate gadfly Bob Monks sets his sights on Stone & Webster
Is SatCon building the guts of a rocket car for Chrysler?
Reeds Jewelers may be the purveyor of gems to watch in '94

145 INVESTMENT FIGURES OF THE WEEK

The Best

111 THEY'RE THE TOP

From the guy who poured the first concrete for the Information Superhighway to a look at the Lamborghini of mountain bikes, it's a remarkable roundup of creativity

Personal Business

136 INVESTING: Fund stars that fade
MORTGAGES: Refis redux
SMART MONEY: Hong Kong's bull

Features

6 UP FRONT

11 READERS REPORT

18 CORRECTIONS & CLARIFICATIONS

30 BOOKS

Yergin and Gustafson: *Russia 2010: And What It Means for the World*

143 BUSINESS WEEK INDEX

144 INDEX TO COMPANIES

146 EDITORIALS

The year for the U.S. to go global
Don't blow your lead, Detroit

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

YOU READ IT HERE FIRST

Never let it be said we don't have the spine to make a prediction or two for the New Year. Here are 10 for 1994:

FED RATE HIKES.

Everybody knows that the inflation-obsessed Federal Reserve is going to raise short-term rates. But when, and by how much? By March, after Chairman Alan Greenspan's mandatory testimony on Capitol Hill. To avoid squelching the recovery, the bump in the federal-funds rate will be no more than half a point, to 3.5%. That should enable the Fed to take the rest of the year off.

STOCK MARKET. Investors may yet talk themselves into that long-dreaded correction, but it will be brief. And it won't keep the Dow from hitting a high of 4200 for the year. At an increase of about 10% over yearend 1993, that ain't too shabby.



HEALTH CARE. By Labor Day, President Bill Clinton will sign a historic health-care-reform bill that won't much resemble the original 1,342-page draft. Gone will be caps on insurance premiums, government-run health alliances, and other costly Washington-knows-best dictums. However, no one will be denied coverage because of pre-



BILL: He'll put his John Henry on a health-care plan

existing medical conditions.

BIOTECH. Scientists will identify the gene involved in breast cancer, pointing the way to more precise and effective treatment for the disease.

TALK SHOW

*I never think of the future.
It comes soon enough.*

—Albert Einstein

TELECOM. Cablevision Systems will sell out to Baby Bell U S West in yet another billion-dollar alliance of phone and cable companies. Also in the deal: Time Warner, the nation's second-largest cable operator (Cablevision is No. 5). The two cable giants give Englewood (Colo.)-based US West a rock-solid foothold in the Northeast. Yet unlike the Bell Atlantic-Tele-Communications union, where TCI Chief Executive John Malone is staying on as second-in-command, Cablevision founder Charles Dolan, 68, won't stick around.

WAL-MART. Wal-Mart Stores, after conquering small-town

America with its low-price strategy, will continue to expand aggressively in Mexico. And then? Go East, discount shoppers: The Pacific Rim is the next target.

ENTERTAINMENT. Arnold Schwarzenegger didn't cover himself with glory in last summer's *Last Action Hero*, which generated a so-so (for Arnold) \$55 million in domestic ticket sales. The muscled one, however, will make a big comeback this coming summer (read: \$100 million and counting) in *True Lies*.



ARNOLD: He'll be back

DETROIT. By yearend, only three consumers will be buying that new car instead of buying it. That's up from about one in eight in 1993. **UNITED AIR LINES.** Aided by union concessions that log off labor costs, United will, long last, make money again, though it must lower fares to entice passengers.

MIDTERM ELECTIONS. This year will follow historical trends closely, so Clinton will see erosion in his party's hold in Congress. Look for Democrats to show a net loss of about 15 seats in the House and 2 in the Senate. That means Clinton will find it a bit tougher to cobble together a coalition for his program.

SMARTEST MOVES OF 1993

- 1) Bill Clinton uses old-fashioned pork-barrel tactics to push through victories on NAFTA and taxes.
- 2) Flight attendants strike American Airlines, winning binding arbitration through Presidential intervention.



SKY-HIGH: Attendants

- 3) General Motors scores a coup by exposing NBC News' bogus explosion of a GM truck.
- 4) Boards of underperforming companies finally muster the gumption to ax their chief execs: IBM's John Akers, Westinghouse's Paul Lego, American Express' James Robinson, Eastman Kodak's Kay Whitmore.
- 5) With movies-on-demand TV nearing, Blockbuster gears up early and extends beyond video rentals to music retailing and film studios.



BOOM: NBC exploded

DUMBEST MOVES OF 1993

- 1) Ross Perot disastrously faces polished debater Al Gore on NAFTA, showing just how charming he can be when challenged.
- 2) Dell Computer's version of a notebook computer bombs big-time while competitors cash in on this booming market.
- 3) CBS loses 38-year grip on National Football Conference games, outbid by upstart Fox Broadcasting.
- 4) Donna Karan overprices her trendy clothing, so company growth falters and an initial public offering is pulled.
- 5) Paramount snubs QVC's higher hostile-takeover bid in favor of Viacom, but a Delaware court cries foul, forcing Paramount to entertain new bids.
- 6) High-flying Northern Telecom lets customer service erode as it focuses on overseas expansion. Result: red ink as CEO Paul Stern steps down.



GORED: The debate

One Of The World's Largest Banks Asked Us How To Make Their Wall Street PCs Run Better.



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HOW'S YOUR HEAD FOR BUSINESS?

Good-bye, 1993. It's gone, but not forgotten. Or is it? Even for business-news aficionados, a lot of stuff that seemed so terribly important at the time is in danger of becoming trivia. Before that happens, here's a little test of your short-term business memory.

- 1) What was Viacom's original bid for Paramount Communications?
- 2) Who ultimately replaced Lou Gerstner at RJR Nabisco?
- 3) How long was Christopher Steffen's tenure as chief finan-



VIRTUAL REALITY: Who saw it first?

- cial officer at Eastman Kodak?
- 4) What was Michael Spindler doing before becoming chief executive officer of Apple Computer?
- 5) What was the amount of RJR Nabisco's failed stock offering last summer?
- 6) How old is Dell Computer's Michael Dell?
- 7) He's big. He wears his hair in dreadlocks. And he's the father of virtual reality. Who is he?
- 8) What legacy did purchasing czar Ig-



nacio López leave at General Motors?

9) What company owns the copyright to Barney, the wildly popular purple dinosaur?

10) Southwest Airlines expanded to its first East Coast destination last year. Name the airport.

11) Often called the Grave Dancer, he has been on a buying binge of ailing companies, gobbling up Sealy, Schwinn Bicycle, and Santa Fe Energy Resources. Name him.

12) Lou Gerstner, Harvey Golub, and John Malone have one thing in common on their resumes. What is it?

13) This car is named after a glowing tube, and it's on sale soon. Name the model and manufacturer.

14) Volvo's attempt to merge with this company is off. Name the jilted partner.

15) Name the investment guru and the former real estate tycoon who launched Quantum Realty Trust.

16) Where does former junk-bond king Michael Milken teach?

17) Name the two living former Presidents who didn't attend the White House event to boost NAFTA.

18) Which former world leader helped raise money for the Republican Party?

19) Which corporate executive sat near Hillary Clinton during the President's economic address to Congress?

20) Name Bill Clinton's second choice for U.S. Attorney General.

21) Which financier did the feds ban from serving as an officer or a director of a public company?

22) Which Baby Bell is challenging American Telephone & Telegraph's acquisition of McCaw Cellular?



EARLY START: Texas mogul Dell

ANSWERS: 1) \$7.7 billion 2) Charles Harper 3) 11 weeks 4) He was COO of Apple 5) \$1.7 billion 6) 28 7) Jason Lanier 8) They're still wearing their watches on their right wrists until GM North America becomes profitable 9) The Lyons Group 10) Baltimore-Washington International 11) Sam Zell 12) They all worked at McKinsey & Co 13) Chrysler's Nelson 14) Renault 15) George Soros and Paul Reichmann 16) UCLA 17) Richard Nixon and Ronald Reagan 18) Mikhail Gorbachev 19) John Sculley 20) Kimba Wood 21) Victor Posner 22) BellSouth

READERS' WISH LISTS FOR '94

Up Front's first annual readers' fax survey tapped into the zeitgeist and disgorged a flood of entries from our facsimile machine—650, in fact. Yeah, yeah, the results are as unscientific as they can get. But judge them for yourself.

Like choosing which CEO you'd most prefer to work for. We asked you to pick among a list of demanding souls in tough businesses, and the results may have been affected by their companies' track records. Bill Gates, who founded Microsoft and made it today's software powerhouse, wins the hearts of 31% of our respondents. Bringing up the rear: Jack Smith, who faces a big challenge fixing long-suffering General Motors.

In this cybernetic age, the majority of you, 83%, are comfortable using a computer. Indeed, some responses came in via computer modem. David Watson of Santa Cruz, Calif., used his Newton to fax his answers in. (And they were legible, too.)

On the downside, you aren't too sanguine about the prospects for laid-off middle-aged managers. Some 76% of you think it's unlikely that these folks will ever work in a comparable or better job.



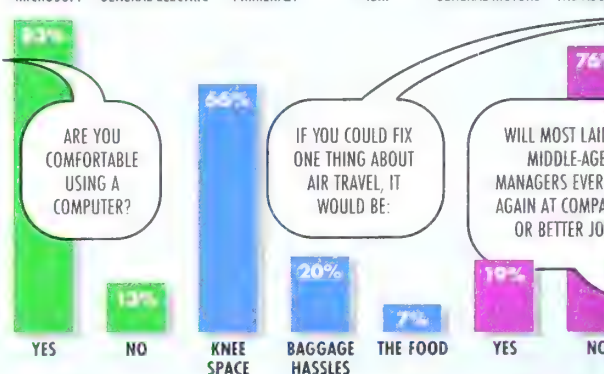
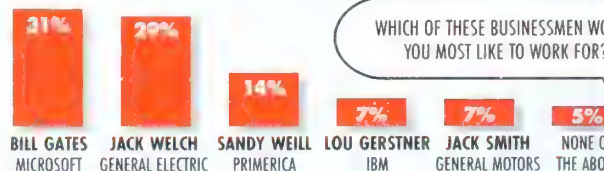
GATES: Maker of millionaires

Airlines? It's the knee space, stupid. More than half, 66%, said you'd fix that first, if you could.

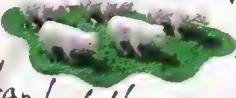
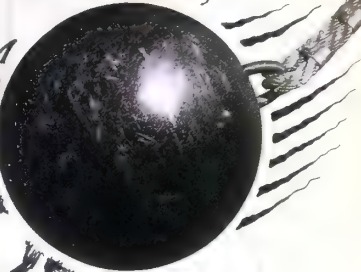
If you could pass one law, what would it be? After a stretch of particularly senseless violence, it is surprising to see a great majority of you demanding gun control, with some even calling for an all-out ban on the arms. Term limits for Congress came in second.

Other suggestions ran the gamut from banning surveys of every kind (after answering this one, of course) to outlawing lawyers to legalizing pornography (Big Blue in particular) to requiring a fire manager for every eight laid-off employees. The pithiest proposal: "No whining."

FAX SURVEY



ANSWERS FROM 650 RESPONDENTS. PERCENTAGES DON'T ADD UP TO 100 BECAUSE NOT EVERYONE ANSWERED ALL THE QUESTIONS.

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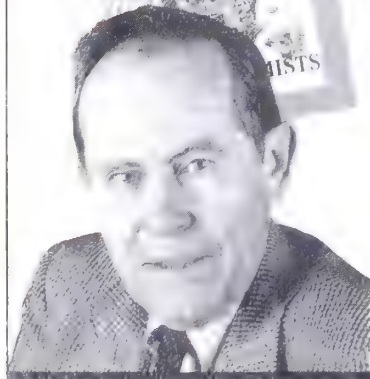
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NOTES TOWARD DEFINING THE AGENDA ON CRIME

in Dec. 13 Cover Story, "The economics of crime," attracted the attention of President Clinton as well as a heavy volume of letters. The most persistent theme among readers was the need for new drug-control laws or strategies. Readers also responded to two earlier pieces: a column by economist Gary S. Becker asserting that stepped-up apprehension and punishment deter crime, and a letter in response from prison inmate Jon Marc Taylor arguing that any improvements in the crime rate can be attributed more to demographics than to increased punishment.

Congratulations on your Cover Story crime. Only one suggestion follows: Quintupling, rather than doubling, the size of the b Corps will produce more results by far than young potential criminals than spending billions on prisons and jails.

Practically no one is rehabilitated or changed from criminal activity serving time in prison, whereas the Job Corps succeeds with 90% of enrollees. Good luck. Keep writing and telling America what needs to be done.

Sargent Shriver
Washington

Our article was a masterful story with some good suggested solutions. We all should realize that current levels of crime and violence are a part of our culture. It can't change soon. It was fu-

eled by the drug culture, the sexual revolution, moral and urban decay, the general collapse of family and community structures, and the adversities of racial, ethnic, and economic discord.

What didn't change while all this was developing over past decades were the philosophies of three of our essential public services—the police, justice, and penal systems. Because they didn't keep pace, these systems today are sub-

WHAT CAN BE DONE? PLENTY



“ If we had \$425 billion to invest in this country, we could lower the unemployment rate by 3% in California within a year... And BUSINESS WEEK sort of advocated the Administration's and the mayors' crime-prevention, crime-reduction strategy. More police reduces crimes. It doesn't just help you catch criminals. If you deploy police in community settings, it reduces the incidence of crime. ”

—President Bill Clinton at a seminar on the California economy, Dec. 4

merged and drowning. They apparently can't help it. They inherited bureaucratic, inflexible, and politically miscontrolled systems.

Elmo Cunningham
Colorado Springs, Colo.

Your description of crimes as "frightening," "stunning," and "mind-numbing" is based on the flimsy assumption that street crime is widespread, threatening nearly every community in the nation. Recent Gallup Polls indicate that the most important problems facing Americans today are the economy, unemployment, and poverty; fewer than 10% list crime as the most important problem. The current "crime problem"

is a synthetic idea forced on the public by the media and by political groups with a vested interest in elevating street crime to the level of a national crisis.

Also, your proposed solutions to crime miss the mark and may do more harm than they are worth. Increased spending for policing and corrections will only lead to the apprehension and incarceration of a greater number of young black males. Drug rehabilitation for criminal offenders, though sometimes effective, has been extremely inefficient. And federal gun control, including the proposals for buy-back programs and licensing, will do little to stop the potential use of some 210 million firearms that are already in the hands of U.S. citizens.

Fortunately, however, several proposals hold great promise. These include an array of social-democratic strategies for rebuilding ghetto communities; the

decriminalization of marijuana; and, most importantly, strategies for strict federal control over the sales of gun ammunition in the inner cities.

Mark S. Hamm
Professor of Criminology
Indiana State University
Terre Haute, Ind.

We recently funded some research into crime and learned that in 1990, only 3.4% of the average of all state budgets was devoted to corrections and only 1% for police. Our study also showed that most of our penal institutions were more than 60 years old.

The point here is that your cost-effec-

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Readers Report

tive plan for reducing crime overlooks the importance of modernizing aged prison facilities and constructing cost-efficient new ones.

Edgar B. Jewett III
President & CEO
Folger Adam Co.
Lemont, Ill.

Editor's note: Folger Adam distributes prison locks and architectural security devices.

Many of my friends and co-workers are puzzled as to why imprisonment costs \$20,000 to \$30,000 per year per inmate. Felons clearly do not deserve access to televisions, etc. A small cell is all society should provide to a three-time loser.

Ken Niemi
San Francisco

You state that crime pay ranges from \$9.75 to \$19 per hour, or about \$14.38 per hour plus no taxes vs. \$5.60 per hour in legit work. Then you further state: "Most important, there must be jobs to compete with the lure of crime." Please tell me who is going to pay approximately \$17.75 per hour (\$14.38 plus fringes of \$3.37 Social Security, etc.) to a

worker who cannot read, write, or do basic math?

J. Peter Thompson
Mountain Lake, Minn.

Pleas for increased punishment as a solution to the crime problem ignore facts, economics, and common sense.

A prison is a place where people are told what they can do, what they'll eat, whom they can speak with—a place where all signs of initiative are punished. And everywhere one looks, the person with the most muscle is winning.

We warehouse people in these environs for years at a time and then wonder why they can't function in an outside world that makes individual responsibility, freedom of choice, and cooperation the necessary attributes for success.

Donald S. Altschul
San Francisco

Your article was further enhanced by the timely death of Pablo Escobar, Colombia's notorious drug lord, and by the extemporaneous comments of U.S. Surgeon General Jocelyn Elders, who suggested that the legalization of drugs would likely reduce the crime rate and

should be studied as a way to reduce violence.

Why didn't you come to the logical conclusion to be drawn from your incisive observations: that our national drug policy needs instant revision and probably a complete change in direction?

Karl Par
Delray Beach

While the story notes a relationship between illegal drugs and crime, it fails to note that drugs themselves pose little threat to the safety of innocent parties. The crimes involve teenagers and addicts committing crimes, buying drugs that would be as cheap as aspirin if they were legal. Not long ago homosexuals, abortionists, and gamblers were generally considered felons by society. They no longer clutter our jails. A more tolerant attitude toward drugs would eliminate up to half our crime.

David K
New York

When I encountered your caveat suggesting that private ownership of handguns should be illegal, I was stunned. As you astutely point out

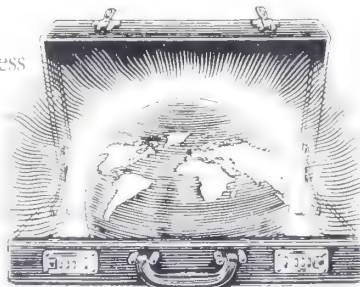
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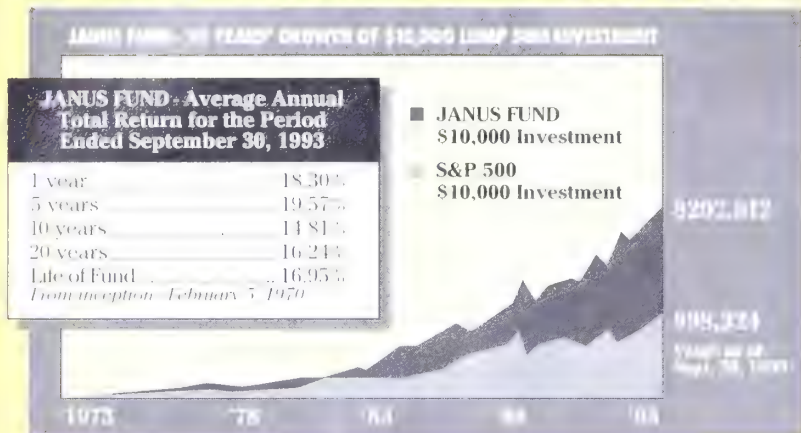
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BW 12

Readers Report

federal law making handguns illegal would, in fact, sharply decrease the number of guns being sold (to law-abiding citizens, at any rate) and make the street price much higher (like cocaine).

Hmm.... This sounds a lot like the policy to combat drugs. And we don't know how effective that has been.

Robert W. Phillips

Your article on crime was interesting, but I would take issue with two comments: First, felons fear entering armed citizens during a crime more than the police. Second, gun control simply does not work.

David H. Arlington

I personally find your recommendations chilling. When it comes to police relations with blacks in this country, it's always been "us vs. them," and "them" (the police) get bigger and "bigger" every year (e.g. Rodney King). I thought of canceling my subscription more than 15 years to your magazine. However, I need the enemy intelligence.

Lawrence E. Braun

I am outraged that you would publish a letter written by a convicted criminal. The concept of providing a convicted criminal (regardless of his wrongdoing) a forum to render his advice about how to solve the country's crime problem is beyond comprehension. It demonstrates your magazine's editorial ineptness. You would have never published Jon Marc Taylor's letter had he raped, sodomized, and robbed someone with whom you were close.

John A. Cullen
Glenview

Sadly, I must say that Taylor's statistics are correct and his logic is impeccable. On the bright side, however, the one antidote that he, like most convicted felons, chooses to ignore—capital punishment. Two things about executed criminals: They don't require much space, and the chance of being a repeat offender drops dramatically.

Geoffrey K. Was
Troy, M

You spent little time on how we can influence the expected gain in crime. We can lower this expected gain by accelerating the elimination of crime from our society. All transactions must be traceable without cash. In a cashless society, it no longer pays to rob or murder the taxi driver because all

ds up with are traceable credit- and bit-card receipts, checks, etc. Convenience and security demands ve brought society close to cashless ss already. Congress and local gov- ument could accelerate this trend by viding incentives to small businesses installing cashless technology and to npanies developing more efficient hless systems.

Philip Mazzini
Montclair, N. J.

hanks for half (or is it a third?) of the crime story. How much does ite-collar corporate crime cost us?

Alexander Carusi
San Francisco

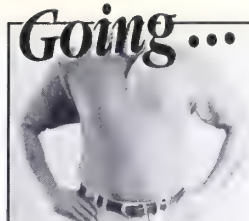
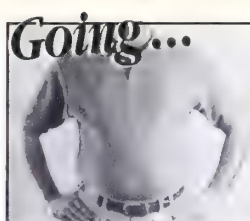
You need to get out of your ivory tower and talk to the policemen of America, who are weary from arrest- ing the same people over and over ain. Get on your soapbox and scream for a new legal system, instead of ling for the streets to be filled with ice. If judges, prosecutors, and de- ders were equally dedicated to be- sure that justice is served and crim- ls aren't turned out to prowl our eets, perhaps we could get the mes- age across that crime doesn't pay.

Elvin R. Parks
Greensboro, N. C.

GSC'S PEDIGREE IS NOT AS STELLAR*

The purpose of this letter is to com- ment on "Small towns, big losses" nance, Dec. 6). Government Secur- es Corp. of Texas is a patient, cus- mer-oriented company with more than employees, including 60 brokers. Our million in capital represents retained nings from our nearly 15-year history a regional broker-dealer selling ex- sively to institutional customers. We not agree with your characterization our business as "peddling securities d operating on the fringes of the se- ities industry."

With regard to GSC's regulatory histo- you are correct in pointing out that ere have been only two minor infrac- ns in our history. You are incorrect, ever, in certain respects: The Texas ion was in 1982, not 1985, and was e result of a difference in interpreta- n of a technical aspect of the appli- ble statute. There was no acknowl- gement of any wrongdoing, no fine olved, and GSC voluntarily registered. approached the state of Tennessee 1985, after an internal compliance re- w indicated we might be claiming an available exemption. We voluntarily gistered with the state and were re- red to disgorge certain profits earned



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Readers Report

CORRECTIONS & CLARIFICATION

"Catching up with the sick-thrift fi (Up Front, Dec. 13) incorrectly scribed Neil Bush's liability for government claims against the directors and officers of Silverado Savings Loan. Bush and the other directors collectively settled the claims for \$4 million, \$23 million of which was covered by funds set aside by Silvera

"Pretty as a picture? Pretty mu (Investment Outlook, Dec. 27) sho have noted that the minimum price \$150,000 for a drawing at the Jan K grier Gallery referred to drawings the gallery's current exhibition of cassos, and not to Picasso drawi in general.

while unregistered. This payment not, as you indicated, a fine for ex sive markups.

Our company has employed the s auditor, Coopers & Lybrand, for m years. Neither their report, nor records of the National Association Securities Dealers, the Securities & change Commission, nor any state r latory body contains any record of impropriety by GSC arising from a tomer-originated complaint prior to recent litigation initiated by one of five public-fund clients in Ohio.

We take issue with your depiction GSC as having "less than a stellar p gree." We are proud of our people believe we have hired and retained s of the best professionals in the secur industry.

Christopher L. LaF
Presi
GSC Group
Hou

DON'T TAR NEIL BUSH WITH THE SAME BRUSH

I take strong issue with the article titled "Catching up with the sick-t five" (Up Front, Dec. 13). To put Bush in the same category as Di Keating, Paul, and Spiegel is a g mischaracterization. Neil Bush was rector of Silverado and probably attended monthly board meetings. others were chief executive officers had total control of their institution

John S. Pillsbury
Telluride, C

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Illustration by Robert Neubecker. As seen in BusinessWeek, August 9, 1993 Issue



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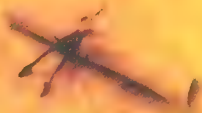
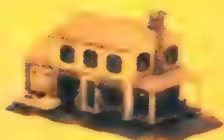
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JOB GROWTH: PLEASANT SURPRISE, OR A CHANGE

Don't look now, but some of the most troubled state economies may be doing better than anyone realized. According to Mark Zandi, an economist at Regional Financial Associates, about a dozen states have issued preliminary revisions of state job growth based on unemployment insurance records, and all two show faster growth than previously reported. The most intriguing result, he says, hints that "the job recession in the Northeastern states may be finally drawing to a close."

Both New Jersey and Massachusetts, which were still reporting job losses a few months ago, now indicate that re-

1.9 million jobs in the 12 months ended in October. By contrast, the sum of all the state tallies—which each state calculates using a different methodology—was up only 1 million. Based on the state revisions so far, it's looking like the national number is more accurate, which could mean that a lot more states had stronger job growth in 1993 than initially thought.

Noting upward revisions in states with many corporate headquarters, Zandi theorizes that many of the jobs being missed by the initial employment surveys are those taken by victims of corporate layoffs, who are starting their own businesses or joining small firms. "Eventually, these jobs get counted," he says, "but most are not as well-paying as the positions they replaced."

LOWER RATES DIDN'T HELP THE HARDEST-HIT HOMEOWNERS

The Northeast and California may be starting to recover now, but why did it take so long? One explanation for the lag, suggests a new study, is that low interest rates may have perversely benefited regions with robust economies much more than the hard-hit areas that actually needed the help.

In the weaker regions, housing prices fell so far that many homeowners could not refinance and take advantage of low interest rates. Drawing on Chemical Bank's detailed records of mortgages made between 1989 and 1992, Columbia University economists Andrew Caplin and Joseph Tracy and Chemical's Charles Freeman found that the rate of refinancing in states with weak property markets was reduced by a stunning 50% compared with other states. Because mortgage refinancing provides a big boost to consumer budgets, California and the Northeast were laboring under a handicap that made it even harder for them to overcome their other problems.

With Michael J. Mandel in New York

IS THE EAST ASIAN TRADE BLOC MERELY A PAPER TIGER?

Is Japan forging the links of an economic powerhouse in East Asia? That's the fear of many Americans and Europeans. They say Japan has already gone a long way toward creating a de facto trade bloc in East Asia, the world's fastest-growing region—cementing trade

ties via foreign aid flows, direct investment, and other forms of finance.

Not to worry, advise economists Jeffrey Frankel of the University of California at Berkeley and Shang-Jin Wei of Harvard University. Their analysis, summarized in a recent issue of the Federal Reserve Bank of San Francisco's *Weekly Letter*, shows scant evidence of a developing Pacific economic bloc dominated by Japan.

Take the U.S. dollar vs. the yen. The two economists found that from 1979 to mid-1992, the major East Asian countries all consistently assigned a heavy weight to the dollar in valuing their currencies. Not only does the dollar remain the dominant currency in East Asian exchange rate and invoicing policies, report Frankel and Wei, but the yen's use in invoicing trade has actually grown less rapidly than Japan's trade in the region.

To be sure, the intraregional share of East Asia's total trade did rise from 33% to 37% in the 1980s. But Frankel and Wei point out that such intragroup trade rose far more rapidly elsewhere, hitting 59% in the European Community. Indeed, they say that the strongest evidence of a trading bloc encompassing East Asia, if one can be said to exist, is one that includes the U.S. and Canada.

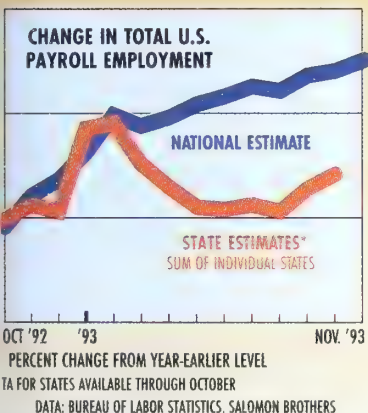
AMERICANS WOULD CHIP IN FOR UNIVERSAL HEALTH COVERAGE

As health-care reform takes political center stage, Americans are weighing the drawbacks of the current system—and indicating they may be willing to make substantial sacrifices to achieve universal health-insurance coverage.

According to a recent nationwide poll conducted by the Employee Benefit Research Institute and the Gallup Organization, some 20% of Americans reported that they or a family member had either passed up a job opportunity or stayed in a job solely to hang on to health benefits. And 11% indicated they or a family member had been denied health insurance because of a medical condition.

Looking ahead, some three-quarters of Americans said they regarded guaranteed health insurance as more important than having unlimited choice of physicians. On average, they indicated that they were willing to pay \$227 a year in added taxes for a guarantee that they and their families would always enjoy health insurance and \$169 more a year to guarantee that all Americans have health coverage.

STATE JOB ESTIMATES SEEM FAR TOO LOW



ed payroll employment will be up for '93. Preliminary data suggest that Maryland, too, will post a gain instead of loss. And Connecticut's large employment decline will look a lot less dramatic.

Other states posting faster job growth include Missouri and Utah.

California's job woes will also look somewhat less critical. Regional economist David Hensley of Salomon Brothers Inc. says that state income tax withholding receipts suggest that California's job loss in 1993 should be closer to 1% in the currently reported 1.4%. In fact, by the second half of next year, he says, "California may finally be seeing a modest employment growth."

Indeed, there are indications that employment gains will be revised up in other states as well. The national payroll employment number—calculated by the Bureau of Labor Statistics—has risen by



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CLINTON'S ECONOMIC SCORECARD: FOUR HITS, NO MISSES

BY RUDI DORNBUSCH



RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY

A year after Bill Clinton's inauguration, his Oval Office performance has to be judged as overwhelmingly positive both when weighed against widespread skepticism at the outset and on the basis of actual accomplishments. Cambridge liberals are disappointed, while New Democrats hope for more of the same—pragmatic moves, maybe less than perfect, but decisive nevertheless. As we now know, Clinton's style usually involves a crisis, but a deal is worked out in the end. In the President's first 52 weeks in the White House, four success stories stand out:

■ **The budget.** Against the accepted wisdom that budget deals were politically impossible, it took courage to move a budget plan and even more grit to shape a deal that inevitably involved raising taxes as much as cutting spending. Contrary to commentary at the time, the economy did not get killed by the tax increases. The reason, of course, is that budget cuts have freed the Federal Reserve to sustain low interest rates and sent down long-term

bond yields in a way that only the staunchest defenders of Clinton's budget would predict. The budget cuts are history, but their benefits in terms of financial stability and growth are being harvested day after day. In hindsight, the fact that Clinton's \$13 billion stimulus package never made it was all to the good. We have done well—perhaps better—without it.

■ **NAFTA.** Nothing could be further from the agenda of the Democratic Party than a sweeping agreement to open trade with our neighbor to the south. This chance to slay the competition bugaboo in a single decisive vote united the political left in opposition. Clinton deserves credit for pushing the pact, building the alliance, and throwing his weight in the direction of free trade. He is correct in linking his "jobs, jobs, jobs" agenda with an export drive. Exports deliver good jobs.

■ **GATT.** At the last minute, as everybody held their breath, the Uruguay Round was brought off. Like NAFTA and the budget compromise, the deal is far from perfect, but the decisiveness



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here, too, is that it is far better than at all. A failure of the Uruguay Round isn't have been the end of the world, but it would have lent support to protectionism everywhere. Recession in Europe and Japan, as well as intense competition around the world, are putting great strain on the case for free trade. That made it all the more important for Clinton to win a vote of confidence in an open world economy.

Clinton's U.S. policy toward China has been mired in an important but narrow agenda of human rights and nuclear nonproliferation. Clinton's economic interest took a back seat to these issues, though China is rapidly becoming the most important market in the world. The Seattle meeting marked a clear reversal: However difficult the task, the Administration has shifted its focus and is now giving top priority to our relations with China.

Clinton, with what has been accomplished so far, one must also recall the dire even-ings envisioned by Clinton's critics that have not materialized: no destructive regulation of business, no environmental terrorism, no punitive taxation of profits, no mindless waste of resources, no limitless tax-and-spend. The verdict isn't complete without looking at the critical challenges. First, any economist must be concerned about health care. Clinton's plan isn't as sound as one would hope for: too few incentives, too little attention to the elderly, too much optimism. We need a

health plan, but the U.S. can't afford the White House scheme. We need a middle-of-the-road alternative, such as the plan championed by Senator John B. Breaux (D-La.) and Representative Jim Cooper (D-Tenn.), with its emphasis on empowering the market to lower medical costs. Let's hope that what finally emerges contains a strong dose of economic reality without sacrificing too much appropriate social concern.

Economic realism will also be needed in two areas where we have seen little action so far. Welfare reform needs to be confronted in a sensitive but realistic way. Education, where the President scored so strongly in the campaign, deserves as much energy and passion as we have seen on the health-care front. Unfortunately, only so much can be crammed into the political agenda, so little has happened.

Compared with Germany or Japan—or any other advanced economy—the U.S. is well managed and is getting ahead. Yet Clinton's approval ratings are underwhelming, since he has stepped on a lot of toes in a short time. That's understandable but unfair. With growth picking up, the economy seems set to move to full employment within a year or so, and sustained growth has been delivering jobs at a steady pace. So the focus must now shift to job training without risking another inflation-induced recession. The challenge, then, will be to reinforce budget discipline to forestall yet another rendezvous with tight money.

Alarmists' fears proved unfounded as Clinton navigated aggressively and wisely on the budget, trade agreements, and taxes



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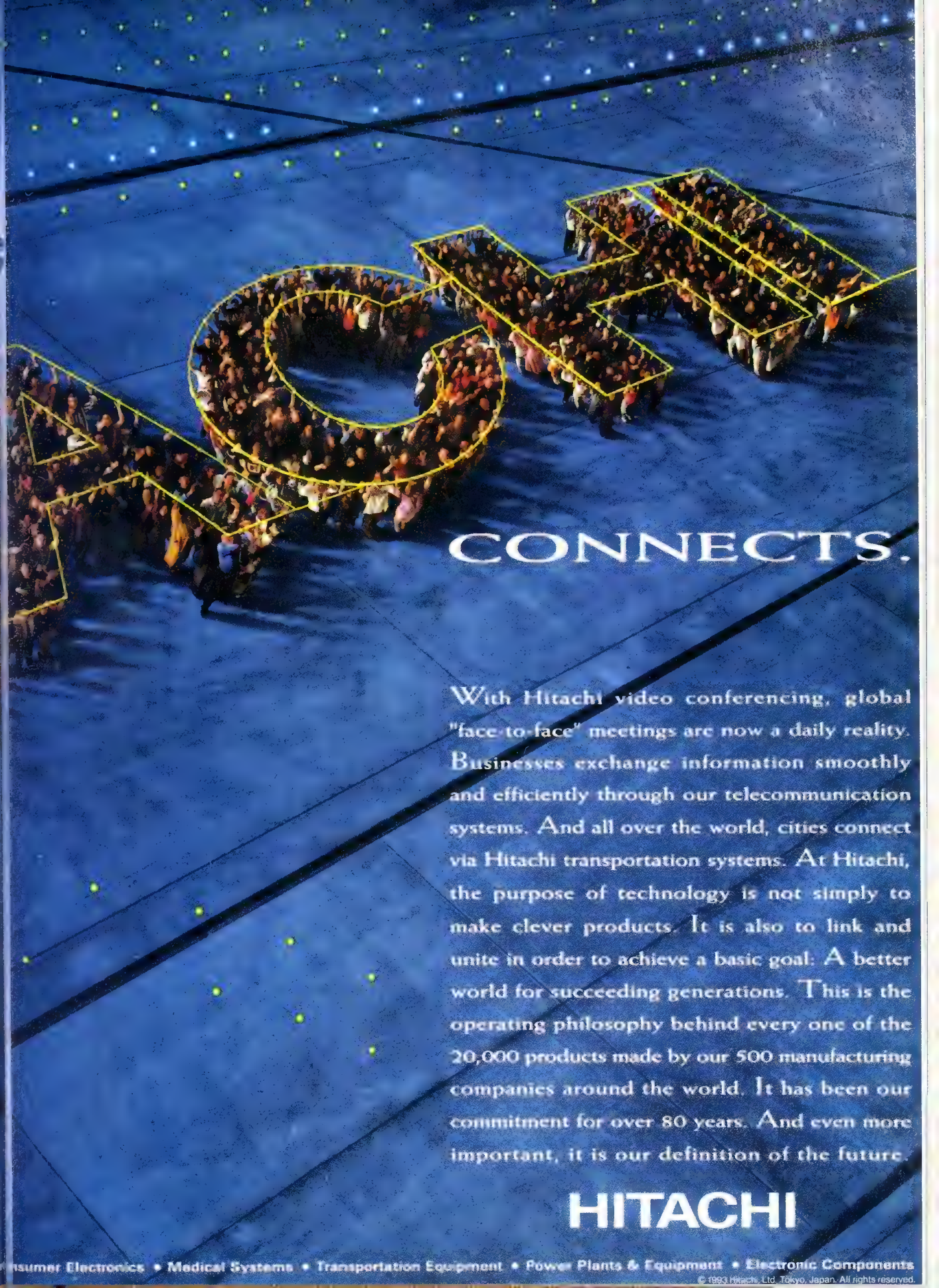
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Books

RUSSIA 2010: AND WHAT IT MEANS FOR THE WORLD

By Daniel Yergin and Thane Gustafson

Random House • 300pp • \$23

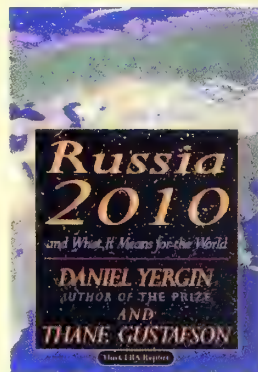
RUSSIA DOWN THE ROAD: MIRACLE OR NIGHTMARE?

What kind of country will Russia be in 16 years? It's a daunting question. Those of us who cover Russia find it hard to predict what may happen next week. But in *Russia 2010: And What It Means for the World*, Daniel Yergin and Thane Gustafson have imagined several highly plausible futures for the country. Their book is a valuable tool for understanding one of the most profound national transformations in decades.

One scenario they conjure is dubbed *Chudo*—Russian for miracle. Imagine a prosperous, productive Russia. Big, private Russian oil companies give Exxon and Mobil a run for their money. Russian stocks and a strong ruble trade actively on world markets. Throughout Russia, consumer goods, new services, and telecommunications systems sprout. Russian billionaires even buy chunks of U.S. companies. While Russia doesn't always do as Washington wants in foreign policy, the Kremlin is far more accommodating than during the cold war.

Or consider, as the authors do, a nasty alternative: About all that comes of the post-Soviet flirtation with democracy and capitalism is mass unemployment, inflation, and crime. By the late 1990s, most government reformers from the Gorbachev-Yeltsin era have been ousted. In time, a nationalistic, militaristic, racist strongman takes over. Strict discipline is enforced at home, and under the guise of protecting ethnic Russians, hostilities against the Baltic nations and Ukraine start. In short, a nonideological but dangerously aggressive version of the old Soviet empire is born.

Yergin and Gustafson, experts on Soviet energy, are president and director of Cambridge Energy Research Associates, a think tank that advises corporate and government clients. *Russia 2010* began as a report for their customers. In it, the authors use "scenario planning"—a technique for anticipating developments in fluid political and economic situations. Analysts posit possible outcomes, then determine how unexpected political events, along with economic trends and cultural traits, could lead to them. The authors say scenario planning has been employed successfully by corporations such as Royal Dutch/Shell



What's scary is that several of the authors' darker predictions for the mid-to-late '90s have already come true

Group, which in 1984 used it to buck conventional wisdom and predict the rise of Mikhail Gorbachev would bring huge changes to the Soviet Union.

Making educated guesses about Russia's future seems an intriguing intellectual exercise. What's scary is that some of the authors' darker predictions for the mid-to-late 1990s have already come true. Take their prophecy of violent civil uprisings in 1995. In early October, a week or two after the book went to the printers, brief but bloody street battles raged in Moscow, ending at least temporarily, the stalemate between Yeltsin and Parliament.

In another scenario, after 1996 presidential elections, the Communist-fascist movement known as the "Red-Brown" emerges as a powerful force in regional

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Books

and localities. The Red-Browns "attack" Jews, Zionists, America, and the West to promote extreme nationalism; and offer dark conspiracies to explain Russia's current position." Eerily, in December's parliamentary elections, neo-fascist Vladimir Zhirinovsky, who embraces such views, and a rekindled Communist Party showed surprising strength.

While such coincidences show how on top of events the authors are, they do not necessarily doom Russia to a future as Slavonic Fourth Reich. In fact, they never predict which outcome will prevail. Given the complex situation in Russia, to do so would damage their credibility. Imagining all the possibilities and thinking through the steps that could lead to them is more meaningful and valid.

The authors do imply that the *Chudo* is most likely, albeit after years of strife—a conclusion supported by the fact that younger Russians are well-educated, nonideological, and starved for Western lifestyles. In this most-hoped outcome, a new, Russian-style capitalism at last gains strength, and the com-

The best-case scenario is supported by the hunger of well-educated young Russians for Western lifestyles

try starts building on successful reforms of the 1990s, notably privatization. Growth picks up, capital flows in, and Western manufacturers hire Russia's educated, low-cost work force.

Even with the *Chudo*, the authors say, vestiges of the old system—a strong state sector, powerful criminals, regional squabbles, and uneven growth—will persist. A latecomer to the industrial revolution, Russia is likewise a latecomer to the Information Age. Since knowledge and experience that the West takes for granted do not exist in Russia, its attitudes toward the West will often be marked by suspicion and ambivalence.

Such insights make *Russia 2010* especially worthwhile. The book's chief weakness is its sometimes-plodding style—a marked contrast with *The Prize*. Yergin's 1991 page-turner on the history of the oil industry. Even so, read the book, cross your fingers, and hope for the best. Given the incredibly fast pace of change, perhaps the authors should retitile their work *Russia 1999*.

BY PETER GALUSZKA

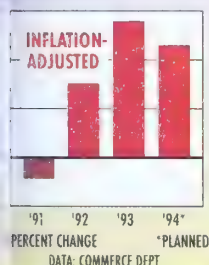
Galuszka heads BUSINESS WEEK's Moscow bureau.

BUSINESS WHIPS OUT ITS CHECKBOOK, TOO

Not everyone spent the fourth quarter jamming up the shopping malls. While consumers went on their holiday buying spree, business executives were busy putting together their 1994 budgets for new plants and equipment. Right now, their plans indicate that the two-year-old capital-spending boom—with its beneficial effects on productivity and inflation—will carry on throughout the new year.

The Commerce Dept.'s latest spending survey, taken in October and November, shows that nonfarm businesses expect to spend 5.4% more on new plants and equipment in 1994, after a 7% rise in 1993. The numbers look even stronger when inflation is taken into account because Commerce expects the cost of computer equipment to keep falling. Price-adjusted capital spending is set to rise in 1994 after an 8.5% surge in 1993, the strongest advance in four years (chart).

ANOTHER GAIN IN CAPITAL SPENDING



Productivity is the big reason for the capital-spending push. Businesses are emphasizing efficiency as a way to hold down costs, remain competitive, and enhance the bottom line. And with capital budgets rising, productivity should continue its stellar performance into 1994.

That's good news because companies that are more productive can lift profit margins even in a hostile pricing environment. And with inflation moderate, interest rates should stay low, adding more fuel to the capital-spending spree. At the same time, workers will benefit from the increase in productivity because pay raises can grow fatter without exerting upward pressure on inflation. Already, faster growth in personal income has financed the second-half pickup in consumer spending and is contributing to consumers' greater confidence in the economy.

SERVICES WILL KEEP SPENDING HEAVILY

Of course, most of the productivity gains in 1993 came in the manufacturing sector. So the service sector must play catch-up in the efficiency game by investing heavily in equipment that improves productivity. Service industries plan to boost capital spending by 6.5% in 1994, or a 10.7% jump in 1993 and a 9.1% hike in 1992.

Manufacturers, however, are also set to increase their outlays. Their capital budgets will be 3.8% bigger in 1994,

following a 3.1% increase in 1993. By spending more now, factories will head off possible production bottlenecks later on. The average factory operating rate has already risen 2.5 percentage points in the past year.

Businesses may beef up their plans even more. Executives have turned decidedly more bullish on the economy, according to the Conference Board. Its fourth-quarter index of business confidence rose sharply, and more than 50% of those surveyed expect more improvement in 1994.

The Commerce survey does not separate money spent on plant construction and equipment. But if the past is a guide, the bulk of outlays will go for equipment. In the past six quarters, equipment spending has accounted for nearly 40% of the growth in real gross domestic product, although that sector is less than 10% of the economy.

That doesn't mean you should

write off outlays for new buildings in 1994, though. After three years of decline, spending on nonresidential construction has quietly slipped back into the plus column. The upturn suggests that nonresidential construction has hit bottom and will add a bit to GDP growth in 1994.

FACTORIES FEEL A RUSH OF DEMAND

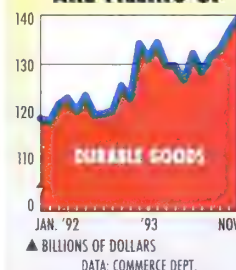
Right now, though, it's equipment manufacturers that are reaping the benefits of the capital-spending boom. New orders for durable goods rose 2% in November, the fourth consecutive uptick in demand (chart). That gain included a hefty 5.3% increase in bookings for non-defense capital goods on top of a 5.9% gain in October.

Unfilled orders did slip for the ninth straight month, falling 0.6% in November. However, sagging aircraft demand has caused a lot of the weakness. Overcapacity among domestic airlines and the global recession have sharply cut demand for commercial jets.

Exclude aircraft—which make up less than 5% of industrial output—and the durable-goods sector looks much stronger. In November, new orders for durable goods other than aircraft were up 11.7% from a year ago. And the backlog of unfilled orders for capital goods excluding aircraft increased for the sixth consecutive month and stood 5.6% above its year-ago level.

It's not just capital spending that's giving durable-goods makers a lift. Consumers have been buying some

ORDER BOOKS ARE FILLING UP

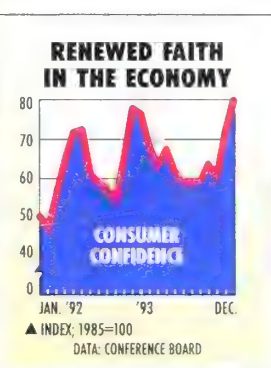


Business Outlook

expensive hardware, too. According to early reports, fancy suits and coats were out this Christmas, cars and refrigerators were in. That trend should continue in 1994, aided by the housing recovery and low interest rates generally. In addition, better prospects for jobs and incomes and a new sense of confidence in the future will help to sustain overall consumer spending.

MORE CASH, MORE CONFIDENCE

Indeed, households have taken a leap of faith in the economy. Consumer confidence surged for the second month in a row in December, says the Conference Board. Its index jumped eight points, to 80.2, following November's 11-point advance (chart). Confidence is now the highest since the Persian Gulf war victory in early 1991. But unlike that surge—and others—in recent years, this one seems rooted in better economic fundamentals.



This increasingly consumer-friendly climate has unleashed a lot of pent-up demand for expensive credit purchases that households forsook during the past three years of uncertainty. In October and November, for example, outlays for durable goods accounted for 80% of all inflation-adjusted consumer spending.

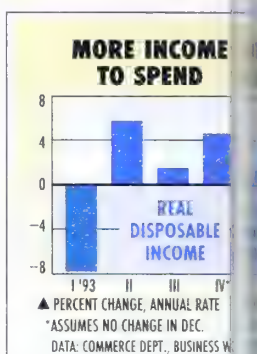
Judging by car sales, that pattern continued in December. Domestically made vehicles sold at an annual rate of 12.9 million at mid-month. That was slightly above the 12.8 million pace for the previous 30 days, which was the best showing in three years.

In fact, hefty outlays for big-ticket items might be one reason why 1993 Christmas sales reported by department stores were merely very good instead of great. Department-store receipts tend to be heavily weighted toward nondurable goods. With data through Christmas

Eve, the *Johnson Redbook Report*, published by Lynch Jones & Ryan, says that December sales at department and chain stores were up 8.1% from a year ago, down slightly below the robust 9.2% pace in December, 1992.

The latest government data on consumer spending and incomes offer good reason to believe that households will continue their spending ways in early 1994. Real outlays rose 0.3% in November, following a sturdy 0.4% advance in October. Even if buying does not rise in December—which seems unlikely—real spending would post a 3.4% annual rate of gain for the fourth quarter, helping to give that quarter's growth in real GDP a big lift.

Spending should remain on track in the first quarter of 1994 because of solid income growth. Real aftertax income rose a healthy 0.5% in November, and even with no gain in December—again, very unlikely—real income would advance at a 4.7% annual rate. Income growth bounced back following a 1.6% annual rate of increase in the third quarter that was depressed by a sharp weather-related drop in farm income.



Income growth should remain firm because of strong labor markets. The Conference Board's index of help wanted advertising, a leading indicator of employment, held at a five-year high in November. And in mid-December, the four-week average of unemployment claims dipped to 330,000—very near a four-year low.

As long as consumers continue to spend and borrow confidently, businesses can easily justify their planned 1994 hikes in capital spending. So far, productivity and competitiveness have been the underlying reasons for greater outlays. But as domestic demand continues to drive economic growth in 1994, the need to increase capacity will provide yet another reason.

THE WEEK AHEAD

NAPM SURVEY

Monday, Jan. 3, 10 a.m.

The business activity index compiled by the National Association of Purchasing Management likely increased to 57% in December, from 55.7% in November, forecast economists surveyed by MMS International, a unit of McGraw-Hill Inc. The expected gain suggests that the factory sector is finally on solid footing.

CONSTRUCTION SPENDING

Monday, Jan. 3, 10 a.m.

Construction spending probably rose by about 1% in November, on top of a 2.5% gain in October. Homebuilding led the increase, thanks to a 3.6% gain in hous-

ing starts in November. Nonresidential construction, however, is finally coming out of its slump.

FACTORY INVENTORIES

Wednesday, Jan. 5, 10 a.m.

Inventories held by manufacturers likely edged up just 0.1% in November, reversing October's 0.1% dip. Factory shipments, though, probably rose much more, so the ratio of inventories to sales hit another record low.

EMPLOYMENT

Friday, Jan. 7, 8:30 a.m.

The MMS median forecast is that non-farm payrolls rose by 200,000 in December, just a bit below the 208,000 in-

crease posted in November. The MMS economists also expect that factory production rose by 10,000, their third consecutive advance. The unemployment rate, though, probably bounced back up to 6.6% last month, after dropping to 6.4% in November from 6.8% in October.

INSTALLMENT CREDIT

Friday, Jan. 7

Consumers probably added about \$7 billion to their credit burdens in November. That's suggested by the healthy pace of retail sales. In October, consumers took on a hefty \$8.1 billion in new installment credit. Consumers have begun to borrow again, in line with the better growth in their incomes.

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Some People Just Know How to Fly

JANUARY 10, 1994

A STICKY SUMMIT

IT WON'T BE THE TRIUMPH CLINTON ENVISIONED



It was planned as a showcase for the Clinton Administration's policy promoting democratic values and free markets in an unchained Russia. Instead, President Clinton's Jan. 12 summit with Russian leader Boris Yeltsin has become a flying leap into the unknown. Ever since the stunning success of ultranationalists and Communists in the Dec. 12 parliamentary elections, the White House has been under growing pressure to craft a policy to justify continued aid to Moscow.

Thus far, though, the Clintonites have spent more time squabbling and agonizing over Russia's seeming swerve away from reform than in crafting a coherent policy. That's partly because Washington's options are so limited. "It would be a mistake for Clinton to give Yeltsin too much breathing room on economic reform," says David J. Kramer, a Russia expert at the Center for Strategic & International Studies in Washington.

But the Clintonites also fear undercutting Yeltsin, who will be performing his own high-wire act at the meeting. The Russian president wants to move boldly on reform and desperately needs Western aid. However, with the ascent of nationalist firebrand Vladimir V. Zhirinovskiy, Kramer notes: "Yeltsin has to be careful not to appear to be kowtowing to the West."

WRANGLING. What tack Clinton should take is now preoccupying many Administration insiders, including Russia expert Strobe Talbott, whom Clinton on Dec. 3 named to the State Dept.'s No. 2 spot. Most officials agree that the U.S., international lending agencies, and the Russian government itself need to be more sensitive to the social upheaval that is accompanying the transformation of the country to a capitalist economy. But within the Administration, the White House, the Treasury Dept., and the State Dept., they have been wrangling over how hard to press Yeltsin on economic reforms.

The Administration is coming to the conclusion that there is little it can do other than give unwavering support to reform and ensure that previously committed Western aid is delivered to Russia for worthwhile projects as quickly as possible (table). With much of the money still in the pipeline, the most pressing need is for the West simply to cough up what it has already promised, officials say.

RED SQUARE: THERE WILL BE "NO GRAND BASKET OF ASSISTANCE" FROM CLINTON

Still, Clinton doesn't want to go to Moscow empty-handed. Despite fiscal constraints, the Pres-

ent is considering offering Yeltsin another \$1 billion in new budget outlays in 1994. That would help a bit, but it would be a far cry from the \$4 billion the U.S. pledged in 1993 for humanitarian aid, housing, and privatization efforts. There will be no grand basket of assistance," predicts one senior Administration official.

With few palatable options, some Clinton Administration officials are pointing their fingers at the International Monetary Fund and World Bank. Clintonites such as Vice-President

Gore believe that Yeltsin has made great strides and are pressing the IMF to ease some of the \$5.5 billion it has laid back. As evidence of progress, the Administration cites Yeltsin's privatization program, the elimination of some export and consumer subsidies, and a reduction in inflation from 29% a month last summer to the current 18% a month. The agency, however, contends that it

has shown unprecedented largess toward the Russians, who already have received \$2.5 billion since 1992 merely by promising to get on a path of reform. The IMF contends that Yeltsin hasn't followed through on his commitments. "What shock therapy?" argues Ernesto Hernandez-Cata, who directs IMF negotiations with Russia. They have an unemployment rate of 6% or less. That's lower than anywhere in Western Europe."

SAFETY NET. Despite concerns that Yeltsin's reforms aren't tough enough, the agency is trying to get more money into Russian hands. The IMF plans to lead a team to Moscow in early 1994 to determine if the government has set realistic targets for economic stabilization. If it has, the agency will release an additional \$1.5 billion, says one IMF official. The mission will follow one in early January during which the agency will make suggestions on ways that Moscow can use up resources to create a social safe-

ty net for Russians who have suffered from economic reforms. The World Bank, too, will also allocate \$500 million for unemployment relief.

Clinton, too, will make creation of a Russian social safety net a focus of his visit, too. For instance, he is likely to offer Yeltsin some technical assistance

But with nationalists polarizing Russian politics, even steps intended to ease the pain of economic reform could be risky. "Such an approach, unless carried out very sensitively, could be perceived as the West endorsing the creation of unemployment," warns Richard Portes, director of the Centre for Economic Policy Research, a London-based think tank. "Even a good use of aid could be easily turned around by the Zhirinovskys of the world."

Moreover, greater pressure on Yeltsin for reform could complicate other foreign policy initiatives by fostering nationalistic sentiments in Russia. Ukraine could be more reluctant to relinquish its nuclear warheads to Russia. A fear of backlash also could prompt Yeltsin to halt troop withdrawals from the Balkans.

BLACK GOLD. Beyond any talk of new government aid and economic reforms, the two Presidents may use the visit to

reaffirm a variety of agreements that are already in the works. Among them: new standards for foreign investment, a joint space station, U.S. corporate assistance on nuclear-reactor safety, and cooperative research and development.

New developments will be scarce, but there is likely to be at least one major one: announcement of a \$3.4 billion injection of American capital by a consortium of oil and gas companies. The project, scheduled to be run jointly with Russian energy concerns, would involve exploration and drilling of new oil fields off Sakhalin Island and Western Siberia. That would substantially boost U.S. investment from the current total of \$400 million and could help rebuild Russia's floundering energy sector, an important

hard-currency earner.

Clinton also must decide whether to reach out to other political figures beyond Yeltsin—or risk repeating the mistake former President George Bush

"Even a good use of aid could be easily turned around by the Zhirinovskys of the world," says one London-based analyst

FEEDING THE BEAR

Here's how the West is aiding Russia

POTENTIAL TOTAL

INTERNATIONAL MONETARY FUND

\$13 BILLION

Has sent \$1.5 billion in short-term loans, and will lend \$5.5 billion more, pending new reform agreements. Once Russia fixes a rate for the ruble, the IMF will provide \$6 billion to help with stabilization.

WORLD BANK

\$1.5 BILLION

Could lend billions for long-term development projects, but has been slow to negotiate with Russia. So far, the Bank has approved \$300 million for private-bank development and \$600 million for drilling oil. On hold is \$600 million for export development, pending release of the IMF loans.

DATA: IMF, TREASURY DEPT., WORLD BANK, BUSINESS WEEK

G-7 PRIVATIZATION FUND

\$3 BILLION

Has approved \$1 billion in export credits to help create private businesses and plans to send \$500 million more. The fund is now negotiating \$1 billion in additional loans, but bureaucratic delays are holding up \$500 million more.

G-7 EXPORT CREDIT COMMITMENTS

\$10 BILLION

Russia has used \$4 billion of its credits; \$6 billion more are available.

AID FROM THE U.S.

\$6.5* BILLION

President Clinton committed \$1.6 billion at Vancouver in April. Congress approved \$2.5 billion more in 1993. Russia also has access to \$400 million for dismantling nuclear weapons. The Export-Import Bank will lend another \$2 billion for oil and gas development.

*INCLUDES AID TO OTHER FORMER SOVIET REPUBLICS



made by backing former President Mikhail Gorbachev long after his political base had eroded. Clinton has already decided not to meet Zhirinovsky. "If the trip were not already scheduled, I would think [Clinton] wouldn't want to go," says Brent Scowcroft, Bush's national security adviser. "It would have been better to let the dust settle before wading in and having to figure out how

to deal with Yeltsin and Zhirinovsky." Despite the perils, Clinton must forge ahead with his Russia trip as a show of support for Yeltsin and economic reform. But the Clintonites had hoped this voyage would be the perfect kickoff to a year filled with important domestic initiatives. Clinton would return home a conquering hero on the world stage, giving him added momentum to launch

health-care and welfare reform. No, the shifting political situation in Russia has dashed those expectations. And the best Clinton can hope for is that what was once billed as his greatest foreign accomplishment won't become an embarrassment.

By Susan B. Garland and Owen Ullmann in Washington, with Bill Javetski in Paris

IN MOSCOW, THE ATTACK OF THE KILLER BRANDS

Slogging through black slush to the Olympic Food Line Shop, Svetlana Zalevskaya is about to encounter Western marketing at its most surreal. She pushes her way through the new supermarket's turnstile and encounters—a six-foot peanut. It's the Planters Mr. Peanut, complete with orange suit, green scarf, and black top hat, handing out sample nuts. Unfazed, Zalevskaya, a 41-year-old food-industry worker, tries a few, says they "taste great," then drops two cans—at \$1.90 or 2,300 rubles each—into her basket.

If RJR Nabisco Inc. has its way, Mr. Peanut will be as familiar in the new Russia as Lenin's goateed mug was in the old. The company has established a Moscow warehouse and wants to set up a factory. "We think the food industry will be one of the strongest growth areas in Russia," says Daniel Brooks, head of Nabisco's Moscow office.

Nabisco is only one of a host of U.S. marketers, including Procter & Gamble, Colgate-Palmolive, Johnson & Johnson, and Coca-Cola, trying to build consumer loyalty in Russia. Not even the electoral victory of ultranationalist Vladimir V. Zhirinovskiy has shaken their resolve. Says Michael O'Neill, Coke's top man in Russia: "Of the 195 countries we're in, a lot are unstable." **COMMERCIAL DRAW.** The marketers' strategy: to brave current turmoil and build brand recognition and consumer loyalty early. Then, as Russia's 218 million citizens grow more prosperous, their consumption of branded products could turn into big business.

Selling in Russia, of course, is hardly

as easy as running a two-for-one promotion at Safeway. That hasn't stopped the thousands of wholesalers springing up to move U.S. goods. Procter & Gamble, meanwhile, has bought an interest in a Russian detergent factory, and Coca-Cola has distribution centers in 30 regions.

Then there's advertising. According to Bruce Macdonald, director general of BBDO Marketing in Moscow, the average ad budget for a foreign company

are tight-lipped about Russian sales and profits. "Anyone here for the long term is not making a profit in Western accounting terms," admits John Bailey, head of Johnson & Johnson's Moscow office. But most executives maintain that a market already is forming. "We estimate that 10% to 15% of the population can afford most of our products," says P&G President John E. Pepper, who oversees international operations. P&G already sells shampoo, detergent

and Oil of Olay in Russia. P&G's Tix detergent costs 1,000 rubles, while generic Russian detergent costs up to 500 rubles. **SHINY HAIR?** Marketers also are encouraging Western-style competition. Pepsi, for example, enjoyed a cola monopoly in the old Soviet Union. Now, Coke is attacking with a vengeance. Alla Kotlyar, director of marketing for PepsiCo Inc.'s Russian operations, says Pepsi remains Russia's top



AD VANTAGE: IN A YEAR, NAME RECOGNITION OF SNICKERS ROSE FROM 5% TO 82%

in Russia for 1993 was \$400,000—four times what it was the year before. And in 1994, the average budget should double, to \$800,000. Those sums, small by Western standards, pack a wallop in Russia, where a minute of television time costs just \$12,000.

The experience of Mars Inc. shows the effectiveness of these techniques. According to a Gallup UK poll in late 1992, only 5% of Russians surveyed could come up with the name Snickers when asked to list familiar candy bars. One year later, after Mars blitzed the airwaves with commercials featuring the Rolling Stones' *(I Can't Get No) Satisfaction*, 82% could name Snickers.

Although the presence of Western brands now is obvious, U.S. companies

Western beverage. But a poll by Roper Starch Worldwide found that 25% of Russia's nouveaux riches preferred Coke, and 14% Pepsi.

Westerners also cannot ignore Russian rivals. In one store, L'Oréal's Éclat shampoo was priced at 2,080 rubles. Next to it was Esta, a Russian brand, for 563 rubles. Sometimes these homegrown brands can benefit from the disillusionment of consumers who tried a foreign brand, only to find it didn't live up to its advertising. "I won't buy Éclat again because it claims to make your hair shiny but it doesn't," says Varya Galushkina, a 37-year-old mother of two. Russia, we come to marketing at its finest.

By Patricia Kranz in Moscow

PARAMOUNT: NOT SO FAST, BARRY

Redstone could still top Diller's bid—and retain control of Viacom

Barry Diller and his loyalists are keeping the champagne bottles corked this New Year's weekend. Conventional wisdom says the chairman of QVC Network Inc. is on the verge of winning his grueling takeover battle for Paramount Communications Inc. But executives close to Diller believe Viacom's Sumner M. Redstone will either match or top QVC's current offer. To survive yet another round of high-stakes bidding, Diller & Co. will need clear heads and cast-iron stomachs.

QVC did leap a critical hurdle on Dec. 22, when Paramount's board of directors voted to recommend Diller's \$80-a-share offer to stockholders. Viacom, though, can make a counteroffer anytime until Jan. 7, when QVC's current tender offer expires. Now, executives do know Redstone says that he is scrambling to line up the cash for a sweetened bid. "The question is: What does Sumner have to come up for this deal?" says one executive.

The answer is: control. How much Redstone is willing to cede becomes the consuming issue for the analysts and arbitrageurs who are handicapping this battle. Spectics on Wall Street say the 70-year-old majority owner of Viacom can't be able to raise more money without relinquishing a good deal of control over his company. With \$1 billion in acquisition-related debt, Viacom can't tap its banks for much more debt financing (table). And observers say investors Blockbuster Entertainment Corp. and Nynex Corp. are likely to demand more of a voice before they ante up extra money. Given Redstone's proclivity for running his own show, some believe the threat of losing control will compel him to give up.

COM TO MOVE. Yet Wall Street bankers and analysts may be exaggerating Redstone's difficulties. The way he has structured his offer for Paramount so it gives him considerable flexibility to hold voting stock in the company without losing overall control. Partly, that's because he drove such a hard bargain in his original Paramount bid. And partly, because Blockbuster and Nynex received virtually no control over Viacom in return for their initial investments.

As it stands now, Redstone would control 69% of the voting shares of a combined Paramount-Viacom. For their investments of \$600 million and \$1.2 billion, respectively, Blockbuster and Nynex get preferred shares that will convert into nonvoting common equity when the stock hits \$70 a share. Observers say both companies would like the conversion price lowered and an opportunity to receive voting shares.

However, Lisbeth R. Barron, a media



analyst at S. G. Warburg & Co., notes that Redstone could issue 23 million more voting shares of Viacom while still retaining 51% control of the company. At Viacom's current share price, that translates into \$1.2 billion. If Redstone were to sell all 23 million shares to his existing partners, or to a new one, Barron figures he could raise enough to boost his bid by roughly \$10 a share.

It's not that simple, of course. If Redstone offers voting stock to one of his partners in return for cash, the other partner could demand voting stock just to remain in the deal. And if he brings in a third equity partner, Redstone might have to placate the other two. Executives familiar with the deal say he has been juggling these issues in a complex series of negotiations.

Redstone is mum. But Blockbuster Chairman H. Wayne Huizenga confirms that before Christmas, he and Viacom discussed ways Blockbuster could give Redstone an extra boost. Rumors that Huizenga denies have Blockbuster demanding three seats on Viacom's board in return for an additional \$600 million. Huizenga won't discuss any specifics, though he notes that Redstone's control of voting shares is the real issue. For its part, Nynex appears unlikely to kick in more money. Sources close to the deal say that the company is already skittish about Redstone's heavy buying of Viacom stock in the months before the Paramount deal. Nynex declined comment.

As he readies his last effort, Redstone may have a couple of other advantages: With QVC's stock price slipping since Paramount endorsed its bid, Diller's

WHY SUMNER IS SCRAPING FOR CASH

How to calculate debt
in the Viacom and QVC offers

	Viacom	QVC Network
<i>Billions of dollars</i>		
Existing debt	\$2.4	\$0.007
Existing Paramount debt	1	1
Preferred equity partners*	1.8	2.17
Convertible securities	0.894	0.935
Bank debt	3.4	2.3
TOTAL DEBT	\$9.5	\$6.4
Minus Paramount cash and off-balance-sheet assets	\$1.6	\$1.3
NET DEBT	\$7.9	\$5.1

*Preferred equity investments of Blockbuster, Nynex et al have dividend requirements similar to debt payments

DATA: PAINEWEBBER INC., COMPANY REPORTS

cash and stock offer is now worth virtually as much as Viacom's. Since Viacom's stock is also prone to wide swings, investors will probably choose the bid with more cash, says PaineWebber Inc. analyst Christopher Dixon. But that may not hurt Redstone: Diller already has \$5.6 billion in cash on the table. And his advisers say he may not be willing to plunk down any more. "He could walk away from Paramount," says one colleague. "And that's no joke."

With Redstone hustling for cash and Diller holding his breath, both sides in the Paramount battle will probably have to hold off on their New Year's merry-making until well into 1994.

By Mark Landler in New York, with Gail DeGeorge in Miami and Ronald Grover in Los Angeles



THE BOARD: WHAT'S WRONG WITH THIS PICTURE?

IS THE FED FACING A POLITICAL CORRECTION?

Choosing a new governor will put its lack of diversity under scrutiny

Put the Federal Reserve's top officials in a room, and the gathering looks more like an elite club of monetary mandarins than a government agency. While Bill Clinton pursues his goal of creating an Administration that "looks like America," the Fed continues to reign as one of the whitest, most male groups in the federal government. The Fed's seven-member Board of Governors is all white and includes just one woman, Susan M. Phillips. Of the next 30 top jobs, all are held by white males except for the director of maintenance services, a black man. At the regional Federal Reserve banks, all 12 presidents and 98 of the 111 vice-presidents are white men. "The place is just permeated with white maleness," says a female ex-Fed staffer.

Now, the Fed's lack of diversity is about to come under a spotlight: In January, Clinton must replace Fed Governor Wayne D. Angell, whose term expires Jan. 31. The Administration's top choice, Alice M. Rivlin, deputy budget director of the Office of Management & Budget, has turned down the job. That leaves two white males as the top choices: Princeton University international economist Peter B. Kenen and veteran congressional budget economist Van Doorn Ooms. Aides say Clinton now deems finding a candidate with policy views compatible with his own more important than promoting diversity.

Choosing a white male, though, may unleash a hail of criticism on the Fed. The Senate Banking Committee, which must confirm the nominee, has three fe-

male members, one of whom, Carol Mosseley-Braun (D-Ill.), is black, and a Native American, Ben Nighthorse Campbell (D-Colo.). "The Fed's hiring record is bad, and this could be an opportunity to raise some hell," says a Senate staffer.

PLUM JOBS. The Fed admits that it has a diversity problem. "We are working diligently to improve opportunities for women and minorities throughout the system," Fed Chairman Alan Greenspan recently wrote House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), a vocal critic of the central bank.

But it is also clear that Greenspan's efforts to change the Fed's demographics will produce results only slowly. The Fed has little turnover, and nearly all promotions are from within. Most high-level staffers are lifers because their jobs are among the most coveted in government. Working conditions are good, and the pay is great—top staff get \$162,000, more than members of Congress or the Cabinet.

Nonetheless, women and minorities are slowly working their way up through the ranks. At the Fed's Washington headquarters, 28% of the second-tier staff jobs are held by women and 14% by minorities. "They've done a lot since I was there," says Nancy H. Teeters, a governor from 1978-84 and the first woman named to the board.

The 12 regional banks have made better progress. Three women are first vice-presidents of regional banks, putting them next in line to become presidents. And when the Cleveland Fed pro-

UNEQUAL OPPORTUNITY

Women and minorities as a percentage of professional employees

	Women	Minorities
FEDERAL RESERVE (1992)	31%	10%
SEC (1990)	35	11
FDIC (1990)	37	15
COMMERCIAL BANKS (1991)	56	17
NONBANK FINANCIAL COMPANIES (1992)	48	13

DATA: FEDERAL RESERVE, BUCK

moted Sandra Pianalto to first vice president in 1993, it elevated two other women to the positions of general counsel and general auditor. The Fed also boasts that 25% of the 812 regional bank officers below the rank of vice-president are women and that 10% are minorities. "We've got good women and minorities coming up the pipeline, but it takes 20 years [for them] to get to the top," says Theodore E. Allison, the senior staffer who coordinates the Fed's regional banks.

Such change is too glacial for Gonzalez and other critics. Barbara Davila Blum, chief executive of Abigail Adams National Bank Corp. in Washington and one of only a handful of women who head up bank holding companies, says the entire banking industry has a dismal record on diversity, with the Fed as the worst offender (table). Its independence "has insulated it from political pressures," Blum says.

BLOCKED SALE. Gonzalez charges that the dominance of white males at the Fed affects its policy decisions. He contends, for instance, that it raises questions about the Fed's commitment "to eradicate redlining and other lending discrimination." And in fact, the central bank has expressed reservations about new Treasury Dept. proposals that would toughen penalties for banks that violate federal lending-discrimination laws. The Fed says it is worried the changes could lead to too many risky loans.

Still, even the Federal Reserve is not completely immune to outside criticism. Some Fed watchers believe it was just that that prompted the central bank to block a recent acquisition by Shawmut Bank because of a poor minority-lending record. If complaints grow louder, the Fed may change further and faster. Fed officials figure that's better than having Congress do it for them.

By Owen Ullmann in Washington

THE INFORMATION AGE ISN'T JUST FOR THE ELITE

When Vice-President Al Gore unveils details of the Clinton Administration's new telecommunications policy on Jan. 11, he likely will mention Matthew Meridith. Last year, while recuperating from a bone-marrow transplant, the 6-year-old from Topeka, Kan., couldn't attend school. So Southwestern Bell Telephone Co. brought first grade to Matthew's home via a two-way videoconferencing system. The cost—roughly \$2,000—was paid from the phone company's business revenues.

Gore likes to use this story to illustrate the human face of technology. But it raises a critical issue: How to reconcile the Administration's goal of universal service—which often requires subsidies like the one provided for Matthew—with its effort to open communications markets to competition. We are trying to figure out a way to maintain service to everyone," says one senior White House official. "The danger you run is creating a society of information haves and have-nots."

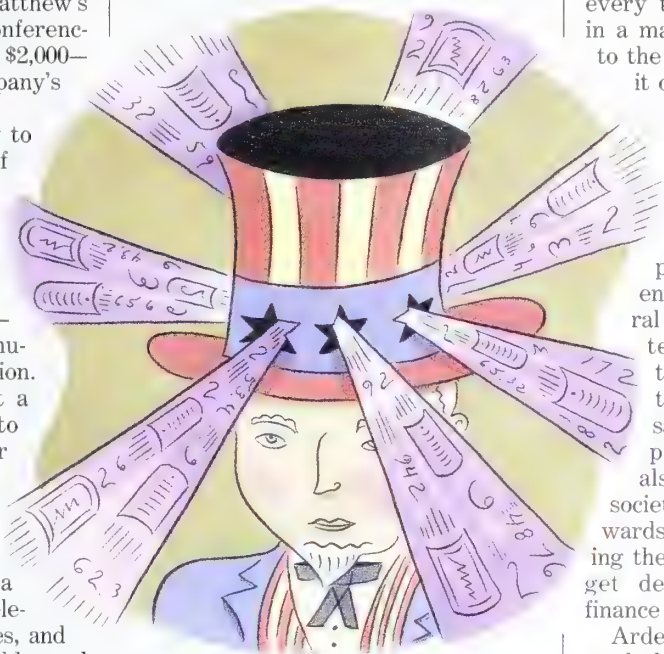
The Administration needs a fast. Barriers between television, cable, Hollywood, phones, and computers are crumbling quickly, and Washington is scrambling to catch up. Now, it must guard against the creation of what's starting to be called an information underclass. A subsidy pool, funded by competitors in the new markets, may be the best way to guarantee that everyone has access to this technology.

IMMING THE CREAM. Universal service wasn't much of a problem when telephone service was run by regulated monopolies: Telephones-for-all was simple enough to mandate and provide. Regulations allowed carriers to charge higher rates to business customers to subsidize rural and poor residential customers who couldn't afford to pay the actual costs of their service.

But as the nation moves into a more competitive era, the monopolies—and the easy fix for universal service—will quickly become relics. Just as MCI Communications Corp. trimmed the cream of American Telephone & Telegraph Co.'s business cus-

tomers when it started out, entrants into new communications markets will try to lure the most lucrative business. That will make it increasingly difficult for local phone companies to subsidize consumers who live on remote Wyoming mountainsides or in the inner cities.

Gore believes that competition itself



will help solve the problem. True enough, but will competition eliminate the need for subsidies? Possibly not—and certainly not overnight. It will be years before there is full competition in the communications arena. So some mechanism must be devised to aid in the transition.

The Clinton Administration recog-

POLICING THE SUPERHIGHWAY

The Clinton Administration's telecommunications policy goals

- ▶ Encourage private-sector creation of the information highway
- ▶ Provide open, nondiscriminatory access to information
- ▶ Promote and protect competition in communications
- ▶ Avoid a society of communications “haves” and “have-nots”

nizes the problem, and in mid-December, the National Telecommunications & Information Administration, an arm of the Commerce Dept., held a hearing in New Mexico to explore the issue. So far, experts are focusing on two regulatory solutions:

One proposal is to create a pool of money financed by contributions from every telecommunications competitor in a market. The levy would be paid to the government, which would dole it out to assure that everyone has a minimum level of service.

This may be the easiest plan from a political standpoint—though it may lead to brawls among the parties concerned.

RAID THE TREASURY. Another possibility is to use general revenues to make sure poor and rural dwellers aren't left behind. After all, it's not just the telecommunications companies that would benefit from universal participation. Marketers, employers, relatives, and friends also would be better off. Since society as a whole would reap rewards, it's possible to justify spreading the financial burden. But the budget deficit leaves little money to finance such new programs.

Ardent free-market advocates contend that everyone should pay their full freight. They argue that the kinds of cross-subsidies that have long existed in telecommunications always break down in the end. Why? Because, they say, those subsidies encourage niche players to compete on price for customers who are paying the inflated charges. That's true—and in the process the market could leave the poor on their own.

Some congressional conservatives are, in fact, pushing the free-market approach. But the White House likely will come out in support of the subsidy pool. That makes sense: Although flawed, it comes closest to creating a level playing field as this new technology explodes in the next few years. By blending competition and universal access, it has the potential to enable a new system that will match the longevity of the current regulatory scheme.

Lewyn covers communications policy from Washington.

DATA: THE WHITE HOUSE

Commentary/by John A. Byrne

REMEMBERING DEMING, THE GODFATHER OF QUALITY

The old man shuffled to the front of the classroom at New York University. W. Edwards Deming, the guru of the total quality movement, was a frail figure in three-piece pinstripes, with bifocals, hearing aids in both ears, and thin white hair.

"Why are we here?" he scribbled on the blackboard.

A few MBA students attempted answers; none were adequate. Finally, he shrugged and turned back to the board.

"To have fun, and maybe learn a little," he wrote.

NEVER SATISFIED. Deming's death on Dec. 20, at 93, reminded me of that scene three years ago. Eager to meet the man who helped Japan become a major industrial power, I had arranged to interview him and to sit in on a few of his classes.

It was not, frankly, the most pleasant experience. Deming was cranky, obstinate, and obscure. He asked as many questions as he volunteered answers. He spoke in a raspy staccato, in short declarative sentences, many of them followed by awkward pauses.

By then, Deming was concerned that he had run out of time. Despite success stories at Xerox Corp., Motorola Inc., and many other companies that embraced his teachings, Deming felt he was a prophet without honor in his own country. In truth, he had become father to a sweeping movement in U.S. industry—but he remained unsatisfied that management's interest in quality was deep enough to ensure lasting improvement.

Deming achieved credibility in the U.S. only late in his long career—despite his status as Japan's great American *sensei*. The former Census Bureau statistician visited Japan in 1947 as a War Dept. consultant to help rebuild the nation. Year after year, he returned to lecture leading business executives on how to use statistics to determine how consumers define quality.

By 1951, Japan had established the much-cherished Deming Prize for corporate quality in his honor.

It wasn't until 1979 that Deming landed his first key American client. William E. Conway, then chief executive of Nashua Corp., an office and computer products manufacturer facing increasing competition from Japan. On his trips to that country, he recalls,

preached in four-day seminars before every Nashua employee. Among other things, he spoke of the need to build employee trust, to work closely with customers and just a few suppliers, and to strive for continuous improvement. Nashua was the first U.S. concern to adopt Deming's teaching fully—and its profits rose markedly.

His success in improving the quality

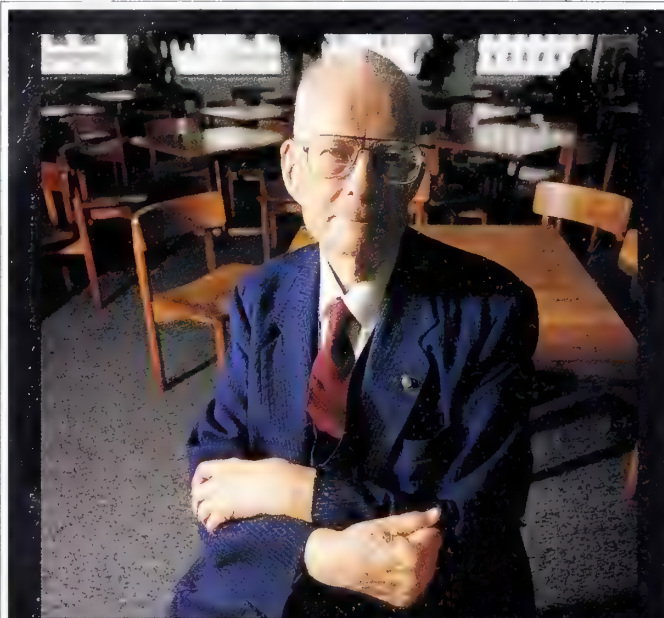
of Nashua's products led to a 1980 NBC television documentary that also credited his ideas for Japan's postwar economic miracle. Shortly afterward, Ford Motor Co. enlisted his help. So did General Motors Corp. and a spate of other U.S. companies. Yet Deming remained frustrated that many were moving too slowly. John O. Whitney, director of the Deming Center for Quality Management at Columbia University, recalls occasionally asking the guru how things were going. "He'd say, 'John, I'm desperate. There's not enough time left.' There was something he needed to say to the world, and he was going to do it as long as he could."

EPITAPH. It explains why even at 93, Deming wouldn't give up. In his final year, he led 30 four-day seminars despite phlebitis, prostate cancer, and the loss of much of his hearing. In early 1993, he collapsed on a stage in Rochester, N.Y., and was rushed to the hospital. A

his last seminar, in California in early December, he spoke from a wheelchair while tethered to an oxygen tank.

To the end, he never lost his enthusiasm or his sense of urgency. What he scribbled on the blackboard three years ago is as good an epitaph as any. In his own way, Deming had fun and taught American managers something that few who heard him will forget: Quality matters, and it starts not on the factory floor but at the very top.

Byrne writes on management issues for BUSINESS WEEK.



"Management today is reactive behavior. You put your hand on a hot stove and yank it off. A cat would know to do as much."

W. EDWARDS DEMING

"all they talked about was Deming."

Conway phoned Deming on Mar. 7, 1979. Two days later, Deming arrived at Nashua's New Hampshire headquarters. For hours, he proselytized on the need to use statistics to enhance quality and productivity. "When he broke to go to the men's room, I turned to my vice-presidents and said, 'This fellow knows what it's all about.' They looked at me like I had a paper hat on. 'Bill,' one said, 'he's a nut.' 'Well, we're going to hire him anyway,' I said."

Over the next four years, Deming

THEODORE SIZER'S MANDATE TO MEND 'MINDLESS' SCHOOLS

The educator's reforms have won \$50 million from Walter Annenberg

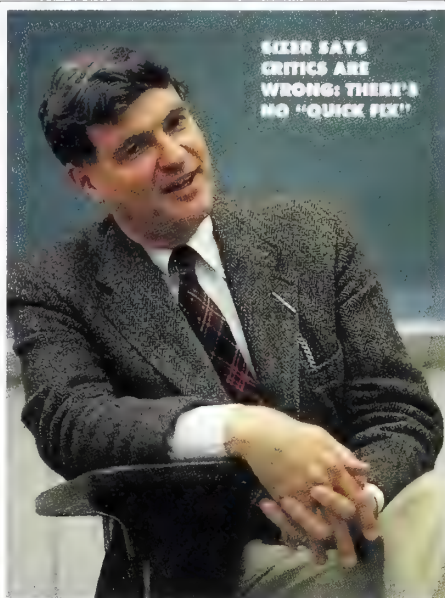
It's no secret that America's schools are in dire shape—high dropout rates and a long-term decline in test scores prove that. But while most academics merely debate reform, Theodore R.Sizer has done something about it. Since 1984, Brown University professor has been recruiting secondary schools to join the Coalition of Essential Schools, his grass-roots reform movement.

Limited by scarce funding, the coalition has remained small, with 150 public and private-school members plus 550 schools ready to join. Nonetheless, Sizer has catapulted to the forefront of the U.S. school-reform debate: In mid-December, philanthropist Walter H. Annenberg gave \$50 million to Sizer's new National Institute for School Reform. The gift was part of Annenberg's \$500 million pledge to fund school improvement. Sizer didn't win the grant by being chthonic: His approach differs radically from reform schemes that concentrate solely on changing the management of the school bureaucracy, such as contracting operations to a private company. Although he agrees that bureaucracy blocks reform, Sizer believes the heart of the problem is the factory-like environment of the average high school, in which students are shuffled along every 50 minutes between teachers who teach hundreds of kids a day. "It's a total-mindless system that results in intellectual chaos for the kids," he says.

A former history teacher and headmaster at Phillips Andover Academy, Sizer believes that true reform can only come about at the level of the individual school, and only when teachers are intimately involved in planning changes. That's the only way to build teacher enthusiasm and to adopt reforms suited to each school's needs, he says.

BELLS. Accordingly, Sizer doesn't offer a specific "model" for a coalition school but urges members to adopt nine principles. The tenets themselves are straightforward. "But they have sensible practical consequences for the typical American factory-del school," Sizer says.

In the average member school, a team of five or six teachers in all disciplines is responsible for about 120 kids. That allows



bonds to form between students and adults and helps ensure that nobody falls through the cracks. The teachers decide how to divide up the day; there are no bells. That often results in interdisciplinary projects that blur the lines between subjects. Rather than giving multiple-choice tests, moreover, many schools require students to demonstrate learning by developing and defending a portfolio of polished work.

Students at Broadmoor Junior High in Pekin, Ill., recently learned about math probability theory by building a mock casino. Each group calculated the odds on its game, designed and constructed it, created ads and posters, and gave a spiel

on its merits. Then they held a carnival. "It let kids see the connections between math, visual arts, and language," says Principal Chuck Bowen. Since adopting the coalition principles, adds Bowen, test results are up, and discipline problems have dropped by 80%.

Such massive change isn't easy for teachers used to closing the classroom door and delivering a monologue. "We trained them to be monks in cells," says Marilyn M. Hohmann, principal of Fairdale High School in a blue-collar neighborhood of Louisville. Since joining the coalition in 1988, Hohmann has introduced team-teaching for 9th and 10th grades, eliminated ability tracking, and given kids more choice of classes. Not all teachers have adapted well, but Fairdale's dropout rate has fallen from 9% to 3%, and 40% of kids go directly into higher education, up from 20%.

LIKE KUDZU. Sizer has published no comprehensive data documenting improvement in his schools. His school-by-school approach, moreover, strikes some critics as well-intentioned, but too slow and inefficient. "The problem with the bottom-up strategy is that we don't have a system that encourages it to happen," says John E. Chubb, a Brookings Institution senior fellow. Chubb and others urge a broader, systemic approach to reform.

Sizer's retort: "The notion of a quick fix is very attractive. It's just wrong-headed. The nature of the task is very complicated." He envisions the coalition's ideas spreading like kudzu vines, with one school's success attracting attention from others. That's starting to happen in a few places, such as Florida's Broward County. To facilitate the process, his group runs numerous seminars in which experienced coalition teachers spread the gospel to neophytes.

The Annenberg money dwarfs Sizer's current budget of \$9 million. With it, he hopes to fund more seminars and seek alliances with like-minded groups. Sizer also would like to establish an interactive television network, modeled on a pilot program at Thayer High School in Winchester, N.H., in which staffers demonstrate how coalition principles are working at their school.

Just as important, Sizer and Brown University President Vartan Gregorian, a longtime Annenberg friend, will be key advisers to the Annenberg Foundation on how to spend the \$400 million not yet committed to any specific project. As much as anything, that stewardship will guarantee Sizer's influence in determining how American schools change.

By Mark Maremont in Boston

REDEFINING THE CLASSROOM

Some of Sizer's principles for schools

SIMPLE GOAL

Schools should help pupils think, not digest facts



INCLUSIVITY

High goals should apply to all students



FOCUS

Students should master a few essential skills and areas of knowledge

ENVIRONMENT

Schools should stress trust, decency, and meeting high standards without anxiety

NEW YARDSTICKS

Students should advance based on proven mastery, not age or credits given for time in class

ACTIVE LEARNING

Students learn best when they're involved—so teachers should be coaches, not lecturers

ALL THEY WANT FOR CHRISTMAS...IS TO BREAK EVEN

Many retailers aren't celebrating despite a holiday shopping surge

Sporting gold cuff links and a plastic name tag, Bloomingdale's Chairman and Chief Executive Michael Gould races around his Manhattan store the day before Christmas. He scoops scraps of paper off the floor and dances around tables of \$99 cashmere sweaters and \$20 perfume samples, pausing only to kiss employees and congratulate them on "making their numbers." Armani apparel sales jumped 20% in December, Gould declares. Upholstered furniture is "outsight" and costume jewelry "extremely strong."

Two years ago, Bloomingdale's parent, Federated Department Stores Inc., was mired in Chapter 11. Now, bankruptcy is a distant memory. Federated's same-store sales rose roughly 5% in December; Bloomingdale's jumped about 9%. "We've tried to make Blooming-

dale's a place where people come to find new and different gifts at all prices," says Gould. "So far, it's worked."

December is make-or-break time for Gould and his ilk—the month that can justify a turnaround strategy or pull a troubled retailer's mediocre year out of the dumps. Every advertisement, each buying decision is critical, as stores struggle to regain customers' favor. 1993 brought a decent Christmas selling

Among the bright spots during December:
Bloomingdale's, J.C. Penney,
and Sears Roebuck

season: Nationwide, sales rose 4% to 5% over last year. But at weaker chains, with the most on the line, there were very mixed results; in the end, most of the losers didn't surprise anyone.

Federated clearly was a winner: Aggressive advertising and pricing pushed sales gains above the 2%-to-5% range. Chairman Allen I. Questrom had predicted. Zale Corp., which emerged from Chapter 11 in July, also pulled out a strong Christmas. "Throughout the month of November, we had seen very disappointing results," says Andrew Ludwig, acting chief operating officer. "The later it got in the season, the better our business got." Employing heavy discounting than planned, Zale's same-store sales will be up roughly 5%. **"ROLLER-COASTER SEASON."** For other chains, December wasn't as merry. Carter Hawley Hale Stores Inc., which emerged from Chapter 11 in October 1992, had a "roller-coaster season," says CEO David Dworkin. To alter consumer perception of Carter Hawley as a beleaguered retailer, Dworkin beefed up advertising, put violinists and guitarists in the stores, and offered Christmas amusement-park rides on the roof of his downtown San Francisco Emporium.



re. "You can come on price," he says, "but it only goes so far." Perhaps, but the plans didn't work so well, either: The chain's same-store sales will be flat this season.

Kmart Corp., facing intense competition from Wal-Mart Stores Inc., had hoped to restore a disappointing year with solid Christmas gains. It didn't. After a 1.9% sales gain through the first 11 months of 1993, its December sales rose just 1.9%.

Dayton-Hudson Corp. did somewhat better.

December same-store sales popped to the low- to mid-single digits. "Dayton-Hudson ended the season O.K., but Kmart didn't do so fine," says Michael Stein, a retail analyst at Kidder, Peabody & Co. "This \$40 billion retailer needs to get its act together."

The same could be said of apparel retailers, for whom December provided little respite. "It's been no barn-burner in the apparel business this year," says Manuel DePhillippo, senior vice-president



AND NOT A BANKRUPTCY JUDGE WAS STIRRING: BLOOMINGDALE'S GOULD (RIGHT)

for marketing and allocation at Filene's Basement. No kidding: Same-store sales for the 10 months ended Nov. 27 fell 3%. December will be "respectable," says Fillipo, but no more than that. At AnnTaylor Stores Corp., same-store sales rose 3% through the end of November, but December sales were flat, says Paul Francis, executive vice-president for finance and administration.

The bright spots: J. C. Penney Co., for one, where sales jumped by roughly 8%

to 9%. Sears, Roebuck & Co.'s same-store sales increased by 10%. Tiffany & Co. sparkled, with a sales gain of 14%. And Saks Fifth Avenue reported an 8% increase: "It's been a cashmere year, from coats to accessories to men's and women's sweaters," explains Saks President Rose Marie Bravo. "Anything in a luxe fabric was a sellout."

Then there was Bloomingdale's, where cashmere was hot, too. Gould's staff moved more than \$20 million

worth this Christmas, double last year's total. In fact, most everything seemed to be selling. This year, he boasts, business was so robust even bathrooms and fitting rooms that "had not been touched by this company in God knows how many years" were renovated. Such are the small miracles when a once troubled retailer cleans up its act for the holidays.

By Laura Zinn in New York, with Wendy Zellner in Dallas, Kevin Kelly in Chicago, and bureau reports

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TEXAS INSTRUMENTS

EDITED BY KEITH H. HAMMONDS

CLOSING BELL



INVESTORS NEED A BETTER ORACLE

The faster a stock soars, the quicker it crashes. Case in point: Oracle Systems. On Dec. 21, the software maker announced solid fiscal second-quarter results: Profits had jumped 86%, to \$62.1 million. But the stock dropped 16%, to \$30. Why the retreat? Oracle exceeded profit estimates but dipped below revenue expectations. That triggered fears that growth is slowing, prompting some analysts to lower ratings. Others believe the sell-off merely marked profit-taking. Or, as Lehman Brothers' David Readerman puts it: "A lot of people going through the exit doors at once."

DATA: BRIDGE INFORMATION SYSTEMS INC.

SO WHAT'S THE EMERGENCY? CHIPS

Here we go again. The Clinton Administration wants "emergency" talks with Tokyo on Japan's semiconductor imports—a perennial burr in U.S.-Japanese relations. Why? New figures show the foreign share of the Japan semiconductor market fell to 18.1% in the third quarter. Washington thinks that's too far below the 20% benchmark that was agreed upon in 1986. This is the first time that the U.S. has called for emergency talks. By opting for negotiations, though, U.S. Trade Representative Mickey Kantor avoided a more aggressive response: sanctions.

SPAIN'S BANESTO GOT BATTERED

In a major casualty of Europe's recession, the Banco de España on Dec. 28 took control of Banco Español de Crédito. Banesto, parent of Spain's fourth-largest financial group, had been plagued by losses from its mining and industrial holdings and appeared unable to meet loan-loss reserve requirements. Mario Conde, the hard-driving financier who during the 1980s epitomized Spain's opening to the outside world, will be replaced as Banesto chairman by Alfredo Sáenz Abad, a vice-president at rival Banco Bilbao Vizcaya. The shakeup is a blow to J.P. Morgan. Its investment partnership took an 8% stake in Banesto earlier this year.

FORD EXECS IN MAZDA'S FUTURE

Ford finally did something for Mazda, the Japanese auto maker in which it has a 25% stake. Ford will send three executives to fill high-level jobs in Japan. The new managers will bring to seven the number of Ford reps on Mazda's board. Analysts said the move may presage more radical change at Mazda, such as staff reductions will be-

HEADLINER

AND NOW, THE INFORMATION SUPERLAWSUIT

It is, perhaps, a quirky foreshadowing of superhighway-inspired litigation to come. On Dec. 16, 10 freelance journalists led by Jonathan Tasini, president of the National Writers Union, sued some of the largest publishing companies in the U.S. In a federal suit filed in New York, the writers complained that Mead Data, *The New York Times*, *Newsday*, *Time Inc. Magazine Co.*, and *University Microfilms International* have reproduced their articles in electronic form without paying for their use—or even getting the authors' O.K.

Given the explosion in shared electronic data—and



intellectual property laws that haven't kept pace—the conflict was inevitable. Mead says the number of searches run on its Lexis and Nexis archival data bases rose from 1 million in 1983 to 43 million in 1992. "We want to be asked for permission to use our work," says Tasini, a former staff at *BUSINESS WEEK*. Tasini says writers also want a formal accounting system set up to track each electronic use of their work. Their suit seeks unspecified damages, as well as an injunction limiting future reproduction. Mead, the central defendant, declines comment on the litigation.

By John Ver...

yond the 3,000 already planned, or dramatic paring of model lines. Both companies denied that more big news lies ahead.

O LITTLE RESCUE OF BETHLEHEM

The United Steelworkers is relieved. Last spring, it chased away a Jakarta-based

company, Ispat Group, that had agreed to buy a shuttered Bethlehem Steel unit, that shuddered when no other buyers appeared. On Dec. 27, Vitas Capital agreed to buy Bethlehem's Bar, Rod & Wire Div., with its mills in Johnstown, Pa., and Lackawanna, N.Y. The union will swallow wage concessions for 20% of the company. Investors will get \$35 million in low-interest financing from Pennsylvania and a package of loans and energy deals from New York. The price wasn't disclosed.

PHOTO FINISH



SOGGY BAGUETTES: DAYS OF HEAVY RAIN SENT FLOODWATERS RAGING THROUGH GERMANY, FRANCE, AND WESTERN ENGLAND

ET CETERA...

- Troubled conglomerate Borden says it will deliver a restructuring plan soon.
- Investor Michael Steinhardt offered \$250 million for 80% of America West Airlines.
- Tokyo stocks plunged, as investors registered disappointment with the government.
- Metropolitan Life Insurance fired seven managers linked to dubious sales practices.



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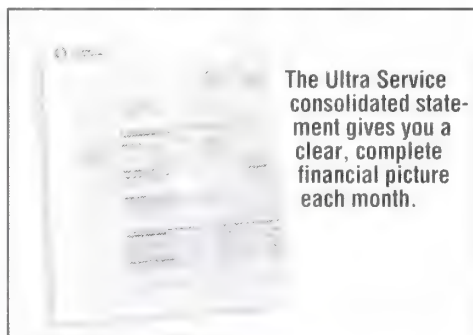
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RUSH LIMBAUGH ISN'T RUNNING BUT EVERYONE ELSE IS

For years, the political clout of conservative radio and TV talk-show hosts has been growing, a reflection of burgeoning populist resentment of the established order. Issues ranging from congressional pay to gun control, right-wing broadcasters have mobilized hordes of followers into potent political force. Now, in a trend that has Republicans quaking and some Democrats ill at ease, many Mouths that are taking a radical step: They're running for Congress. The talkmeisters' patron saint, Rush Limbaugh, has so far rejected calls to run, but others found the clamor irresistible. "People began to call urging me to run," says Ronna Romney, the former daughter-in-law of former Michigan Governor George Romney, who quit her job in November at WXYT-AM in Southfield to seek the GOP nod to succeed retiring Senator Donald W. Riegle Jr. (R-Mich.). "They said, 'You always liked the talk, but there only are a few people who can walk the walk.'"

LAND MINES. Nine other local talk-show hosts have heeded that call, and are seeking a Senate seat in Massachusetts, three House seats in Florida, two in California, and one each in Arizona, Oregon, and Washington. Only one of the 10, former San Diego Mayor Roger Hedgecock, has elective experience. But GOP officials insist that some can mount serious challenges to Democratic incumbents. "These people are the best-known names in the community," says GOP fund-raiser L. Brent Boll III. "They speak a language that the public likes." The talkmeisters promote a brew of right-wing nostrums: they vow to cut taxes, balance the budget, rein in government, and limit congressional terms. That makes them allies of the hardliners seeking to plant land mines in the President's path. They've made their grass-roots touch felt. In 1993, they helped turn public opinion against the President on taxes.

Although they're campaign neophytes, talk-show hosts have advantages that typical challengers can't match. They're plugged into voter resentments, and they're well known. "They have an almost incumbent-like base of name recognition," says Democratic consultant Brian Lunde. "But they don't have the incumbent baggage."

Yet fame has its limits. Mainstream voters may not take talk-show hosts seriously. And the history of celebrity candidacies isn't encouraging. Talkmeisters "think that because they're the greatest candidates, they're going to get help"

from party leaders, says Beverly B. Kennedy, a financial planner with a radio show in Boca Raton, Fla. But the pros "want to see what you can do on your own before they help you," says Kennedy, who lost a 1992 bid for Congress after being outspent nearly 10 to 1 by Democratic Representative Peter Deutsch. The lessons of the race will help in her 1994 rematch.

If nothing else, some of the talkmeister's in-your-face tactics can enliven a race. Take Janet Jeghelian, a 15-year veteran of Boston radio. When the Massachusetts GOP couldn't find a heavy-

weight to take on battered Senator Edward M. Kennedy, Jeghelian filled the bill—and she promises to cast harpoons at the incumbent. Talk-show hosts can be counted on to "do something outrageous every once in a while," she says. "But people know me, and they believe I have integrity and consistency."

When you come right down to it, few of the talk-show hosts feel they have anything to lose by taking their acts into the political arena. If lightning strikes, they could ride a wave of populist rage into office. And if they lose? Well, there's nothing like the publicity from an uphill election race to boost ratings.

By Richard S. Dunham



TALKMEISTER ROMNEY: WALKING THAT WALK

HOSPITAL WRAPUP

POLITICS

Representative Charles E. Schumer (D-N.Y.), a ubiquitous TV presence on issues ranging from crime to banking legislation, is talking with political consultants about running for governor this year—if incumbent Mario M. Cuomo doesn't seek reelection. Polls show majority of New Yorkers would like Cuomo to step down. And some Democrats, weary of the governor's indecisiveness, are encouraging the ambitious Brooklyn congressman. Schumer's leadership on the pending crime bill and on gun control could help sell a few New York City politician in parts of the state that are skeptical of liberals

from the Big Apple. But Schumer has made it clear that he won't run if Cuomo decides to seek a fourth term.

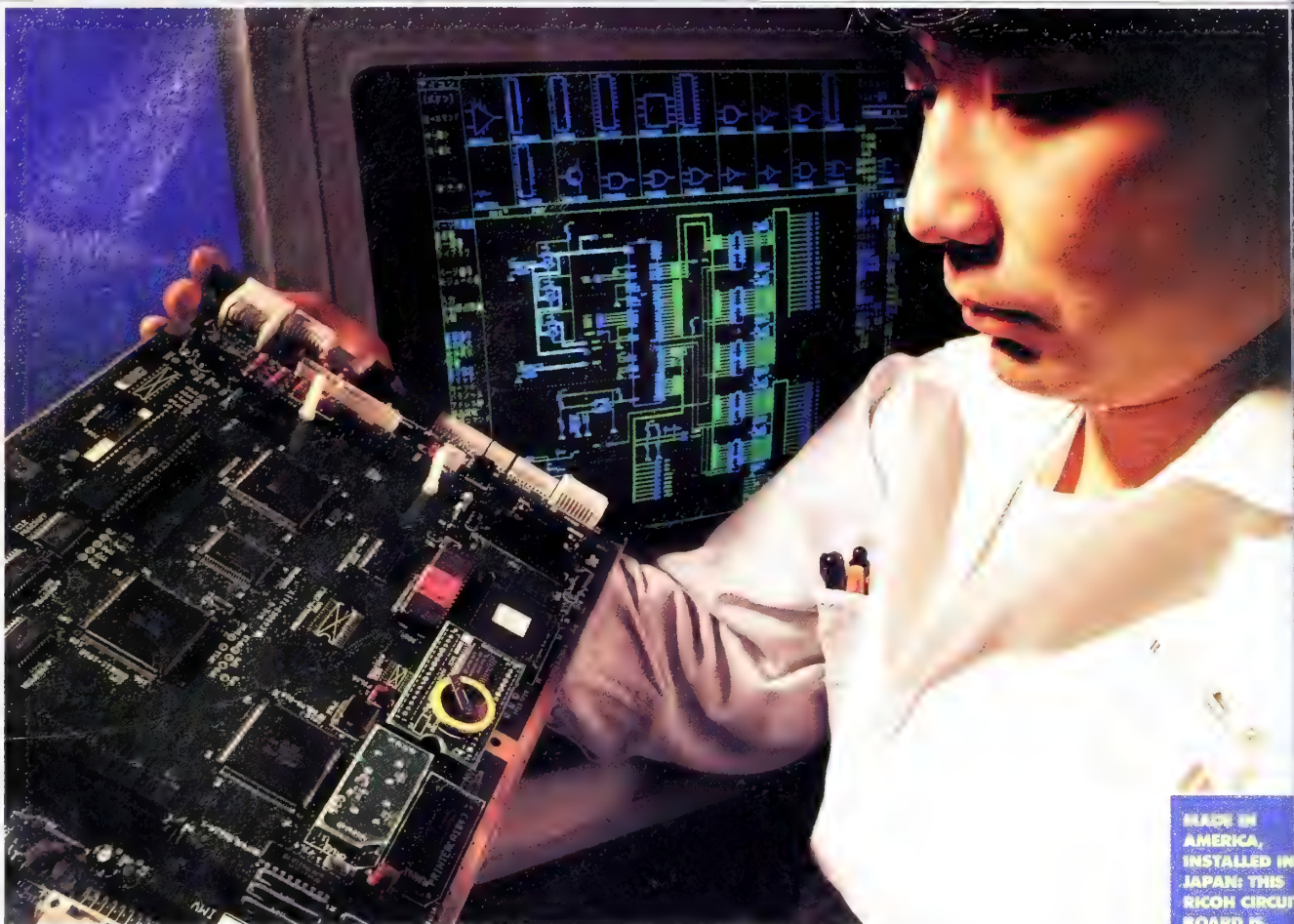
HEALTH CARE

Despite her reputation as the White House liberal, Hillary Rodham Clinton is seeking business support for her health-care reform plan. She has asked top executives from several companies—including Xerox, TRW, and Kodak—to form "corporate task forces" that would work out compromises to make the plan more palatable to employers. The move would bypass established business groups, most of which have reservations about the Administration's proposal.

THE ADMINISTRATION

The Federal Reserve Board jealously guards its independence from elected politicians, but does the Clinton Administration have enough independence from the Fed? Bobby Ray Inman, the Defense Secretary-designate, would be the third top Administration official with ties to the central bank. He's a former chairman of the board of the Federal Reserve Bank of Dallas. Housing & Urban Development Secretary Henry G. Cisneros is a former deputy chairman of the Dallas Fed's board, and White House Chief of Staff Thomas F. McLarty III is an ex-director of the St. Louis Fed.

JAPAN



DOING THE UNTHINKABLE

JAPAN INC.'S SUPPLIERS GASP AS IT BUYS ABROAD

A visit to the western shores of Tokyo Bay is all it takes to see the depth of Japan's recession. This is Ohta Ward, home to hundreds of small companies that machine parts or process raw materials for Japanese industry. Meet Atsushi Miura, a 47-year-old workshop owner who turns out everything from bearing mounts to spigots on his lathes. Business is down 40% from prerecession peaks, says Miura. Its machinery now dusty, a neighboring workshop went bust in 1993. And down the street, Miura pauses by an operation

that was seized by its *yakuza*, or mob, creditors in July. "The owner fled in the night with his family," Miura says.

This is life at the bottom of Japan's corporate food chain. Small operators traditionally bear the brunt of recessions as blue-chip companies press suppliers for bone-crunching price cuts, and those suppliers in turn press subsuppliers. But this recession is different: Its magnitude is severing some long-term supplier relationships at the core of Japanese industrial prowess. It's also pressuring the economy as a whole, forcing up unem-

ployment, slicing into consumer demand, and piling up bankruptcies (chart). But the good news is that the cracks in Japan's edifice are opening opportunities for foreigners. From Toyota to Toshiba, Japanese giants are turning more and more to lower-cost American and other foreign parts makers.

In recent months, Sony, NEC, Casio, Ricoh, and Minolta have all reached out to American chip partners for key devices. Ricoh Co. is using a customized Motorola Inc. microcontroller that allows a digital office copier to double as a high-quality printer or fax machine. Taiwanese plastics maker Chisei is bypassing all of Japan's 100-plus plastics who used to sell plastic resins directly to giants such as Matsushita Electric and Hitachi. It is even making resins under contract to such major Japanese producers as Asahi Chemical Industry Co.

DETROIT IRON. And General Motors Corp.'s Automotive Components Group will sell \$75 million worth of antilock brake systems to Toyota, Isuzu, and Suzuki. Most will be installed in the U.S., but Suzuki Motor Corp. will use 60,000

them for cars made and sold in Japan. Motohiko Hirayama, a senior manager in GM's components group, says that before the recession, the strong yen, and political pressure came along, "very likely those contacts would have gone to the Japanese." The GM group expects total sales to Japanese makers to double from \$1 billion to \$2 billion by 1998. To be sure, it isn't the end of the *keiretsu*, the huge, integrated collections of banks and companies. Indeed, by pooling resources and merging, some *keiretsu* members appear to be girding themselves for the long haul—and may emerge stronger in the long run. But other *keiretsu* relationships are fraying. In electronics, for example, where supplier-buyer links were once as tight as in autos, nearly every major company is forging new partnerships—and not just for parts.

Not only are American-made chips going into Japanese electronics but more Japanese companies are selling finished American goods under their own labels. Mitsubishi Electric Corp. resells IBM mainframes in Japan. Hitachi Ltd. does the same with Big Blue's notebook computers. A dozen Japanese companies resell workstations made by Sun Microsystems Inc. And rather than spend millions developing its own line of cellular telephones, Pioneer Electric Corp. recently struck a resale deal with market leader Motorola. This rash of original-equipment manufacturing deals is a remarkable reversal of business practices. It signifies how deeply the recession is revolutionizing the way Japanese companies operate.

W LAB. The same pressures even bear down on the auto industry, once the bastion of *keiretsu* ties. While they still rarely use foreign suppliers in Japan, auto makers are redrawing traditional supply patterns to slash costs. When Nissan sought a supplier of automatic transmissions last June, for example, it went outside its *keiretsu* and hired Toyota affiliate Tokai Rika. Nissan also hired Toyota affiliate Aisan Industries for vacuum pumps. Nissan posted a loss of \$260 million in 1993's first half, compared with a \$128 million loss the first half of the previous year, and there is no sign of demand picking up. This is the time to reconsider the way you purchase parts," says Masaru Ohta, Nissan purchasing manager.



Suppliers, meanwhile, no longer wait for the orders to flow in. Hidaka Seiki, a maker of precision auto parts for Honda Motor Co., wanted to sell to other customers, but it knew Honda would balk at the idea of a rival's research being conducted in the same facility. Hidaka Seiki couldn't stand pat, either, so before even finding new business, it went ahead and built a second research lab, in

will pay dividends isn't clear. And perhaps Japan will revert to form when the recession eventually ends. But don't bet on it. Indeed, the threat from cheap Southeast Asian parts makers has many in Japan fretting about an American-style hollowing out of the industrial base.

Listen to Kozaburo Shikata, chairman of Taiyo Manufacturing Co. in Osaka. Taiyo's 400 or so full-timers make a wide range of electronic components, from knobs and switches to printed circuit boards for televisions and VCRs. The 72-year-old Shikata survived all the oil and yen shocks of the 1970s and '80s and had scoffed all along at talk of Japan's lost manufacturing edge. But not now. "This time, the danger is real," says Shikata. "We can compete with Southeast Asian companies in any area of quality and service. But in some areas, Japanese subcontractors can no longer compete on cost."



Tochigi. "We are trying to seek out other orders from companies besides Honda. It will be very, very difficult if we stick to one main company," says President Sadahiko Hidaka.

Over the long haul, the newfound sourcing flexibility may make Japan more competitive. George Ohgaki, a researcher at Yano Research Institute, points out that Japan's chemical industry houses a welter of smallish companies, most lacking the capital resources to compete with such U.S. giants as DuPont, which is expanding in Japan. But just when the new flexibility in sourcing

Back at the machine shop, Miura and his friends sit around a kerosene heater and swap stories about the machinery accidents that gnarled their hands and about the neighborhood companies claimed by the downturn. "In past recessions, we had about three months of bad business. Now, it has been about a year and a half," moans Miura. His lean operation will survive, but for many other small companies like his, this recession may never end.

By Larry Holyoke, William Spindle, and Neil Gross in Tokyo

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ALGERIA: A STORM GATHERING ON THE MEDITERRANEAN

Like other die-hard expatriates who refuse to flee Algeria's violence, American oilman Al Sehsuvaroglu moved recently from his Algiers villa into the tightly guarded hotel. There, the operations manager for Halliburton Energy Services hopes to wait out the carnage by Muslim terrorists, who have murdered two dozen foreigners since September and vow to kill others who don't leave.

There's a chance that this wave of terror may mark the first point in Algeria's two-year-old struggle between a repressive, army-backed regime and Islamic fundamentalists seeking an Iranian-style government. The country's emergency rulers are now promising to give up power by the end of January and hold a referendum of reconciliation to choose a new consensus government and plan elections. However, observers in Algiers are skeptical. They point out that such moves have been promised before, and they doubt whether key fundamentalists will be included.

WIL WAR? So Algeria could be facing a lengthy agony. The current violence—in which 30 Algerians have died—might even escalate to full-scale civil war, believes Dirk Van Delle, a Mideast scholar at Dartmouth College. War across the Mediterranean is a frightening prospect for Western Europe, already agitated by the war in Bosnia. A new flood of immigrants would surely result. And a militant Islamic regime in a major Arab country such as Algeria would undoubtedly energize other fundamentalist movements in the region, including those in Egypt and Saudi Arabia.

Popular support for the fundamentalists stems less from religious zeal than from a sick economy with 30% unemployment—the result of a corrupt, one-party socialist system. Algeria is oil-rich, but falling prices mean petroleum income is down—to \$10 billion in 1993, from \$12 billion in 1992. And 90%

of oil revenues go to service the country's foreign debt of more than \$26 billion.

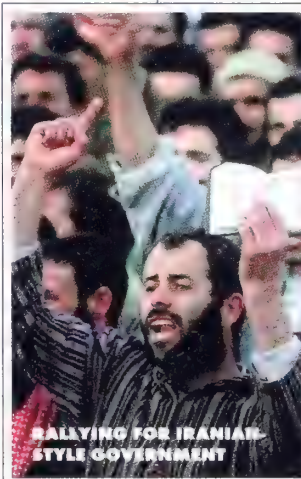
The West is hoping to head off chaos with financial aid. Current talks with the International Monetary Fund could lead the West to forgive up to \$6 billion in debt and lend new funds to ease debt service. In return, the IMF would demand a currency devaluation and trade liberalization. France—the main loser if civil war generates immigrants—is trying to use this deal to prompt Algeria's warring factions to negotiate.

It's not clear if that tactic will work. The most fiery militants threaten to kill their own leaders if they attend January's planned conference. Yet there are a few signs the fundamentalists may realize they're stalemated. A key exiled militant, Rabah Kebir, had rejected all negotiation. But in late December, he seemed to signal a change of attitude by laying down conditions for talks.

GHOST TOWNS. Algeria's army is the main force blocking the fundamentalists. The current government is its pawn. Military brass fear the fundamentalists because their counterparts purged Iran's army. But experts say the military must accept Islamic participation in a new government. "It's the only way out of the crisis," says Larbi Talha, a leading Algeria scholar in France.

Meanwhile, the fundamentalists' Dec. 1 deadline for foreigners to leave or face death has triggered an exodus of embassy and company staff, turning the expatriate neighborhoods of Algiers into ghost towns. Still, a few foreigners, including Halliburton's Sehsuvaroglu, think it's worth staying around. "Petroleum is Algeria's lifeline that can't be cut off" even by fundamentalists, he says. The optimists think the country has great potential if a political solution can be found and the economy privatized. But chances are that Algeria faces a lot more pain first.

By Stewart Toy, with Charles Hoots, in Paris



GLOBAL WRAPUP

INDIA'S SCANDAL

The country's widening securities scandal looks as if it may claim Finance Minister Manmohan Singh. While he is not involved in the scandal, Singh has offered to resign on the grounds that it occurred on his watch. Prime Minister Narasimha Rao does not want Singh to go and is trying to find a way to retain him. The Finance Minister's departure could hurt foreign investors' confidence in India. Singh has been the key player behind efforts to liberalize India's economy. Meanwhile, a parliamentary committee investigating the scandal has recommended that the government suspend

the licenses of Citibank, Standard Chartered, and other foreign banks that have been implicated. Penalties will be determined by the central bank in early 1994.

ISRAELI AIR WARS

Fare discounting has finally hit Israel. El Al recently dropped the price on flights between Tel Aviv and New York from \$746 to \$499. The fare is good through Feb. 10 on selected flights. The other major carriers on the route, TWA and Delta, have not yet responded. El Al's aim is to attract Christians from the U.S. to the Holy Land during the holiday period. The Israeli carrier has seen its market

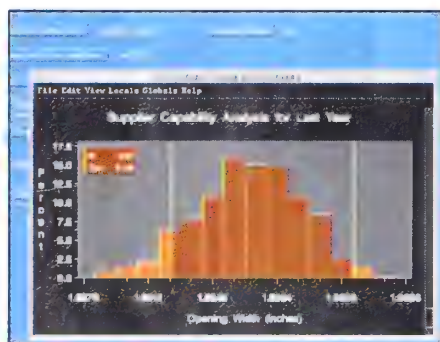
share at Tel Aviv's Ben-Gurion International Airport drop in the past two years from 48% to below 40%.

RUSSIAN BANKRUPTCIES

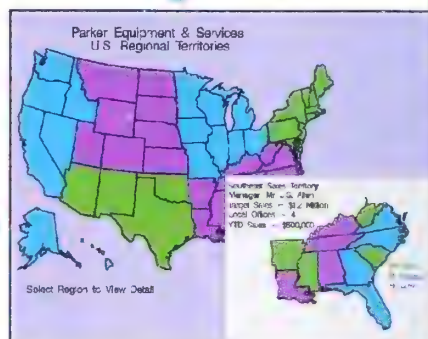
In a move that could give economic reform a badly needed boost, Russian President Boris Yeltsin has signed a bankruptcy law into effect. The law could be used to force the liquidation or privatization of loss-making state enterprises that are now a huge drain on the budget. A newly created government agency will be set up to determine companies' solvency. An estimated 8,000 enterprises, many of them in the coal industry, would currently qualify as bankrupt.

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BY GENE G. MARCIAL

MONKS THE GADFLY LANDS ON STONE & WEBSTER

Bob Monks invariably finds himself calling on CEOs to press one question: "What have you done for shareholders?" This corporate gadfly takes on companies whose stocks have underperformed mainly because of inferior returns on equity and lackluster earnings.

Monks is now quietly targeting Stone & Webster, the Big Board-listed global engineering, construction, and management-consulting outfit. Stone's stock has meandered between 25 and 0 a share in the past two years. It's now at 26.

Stone's management should probably start worrying. Through shareholder pressure, Monks has, after all, helped trigger restructuring in the past two years at Sears, Kodak, American Express, and Borden. Except for Ed Brennan at Sears, the CEOs at these companies have been dethroned.

What's Monks' gripe against Stone? He thinks management hasn't exploited Stone's assets to beef up its stock price. Monks, president of the money-management firm Lens Inc., met with Chairman William Allen Jr., President Bruce Coles, and Director William Egan on Sept. 21. Monks suggested Stone sell the 700,000 shares of Tennessee that it owns, now worth \$35 million, and other nonconstruction related assets. Allen told BUSINESS WEEK that he would sell the shares only if Stone needed cash for an important venture. And he sees no reason to sell the several hundred acres of land and six buildings that Stone owns in Tampa.

WELCOME MAT. Stone's return on equity is a meager 2.9%, notes Monks, compared with big competitor Fluor's 6%, Morrison Knudsen's 9%, and Foster Wheeler's 8.6%. Earnings also have been unimpressive: Stone earned 50¢ a share in 1990, \$1.08 in 1991, and 62¢ in 1992. In 1993's first nine months, the company earned a measly 11¢.

Monks wanted to know what growth plans management had in the face of such returns. "Egan was visibly upset at my questions, while Allen and Coles just listened and made us feel quite unwelcome," recalls Monks. Weeks later, he got a letter from Coles advising Monks not to worry and that



INVESTOR BOB MONKS: HE HAS PUT HEAT ON SEARS, KODAK, AND BORDEN.

everything was running smoothly. On Dec. 15, Allen, who is 74-years-old, announced that he would cede the post of CEO to Coles at the May 12 shareholders meeting.

Monks figures that Stone "is a \$54 stock" if management paid attention to producing better returns. Lens owns 175,000 shares—worth \$5 million. Grouses Monks: "Our stake is more than what the entire board owns."

CHRYSLER'S ROCKET BUILDER?

Psst! Rumors have it that Chrysler is ready to unveil an unusual racing car in January—one that is powered by the combination of a turbine racing engine and an electric flywheel system based on engineering principles used in military jets. The advanced technology, say some auto experts, could propel a car to speeds of up to 300 miles per hour. Some pros who believe the story aren't necessarily racing to buy Chrysler shares, though. Instead, they are snapping up little-known SatCon Technology stock.

In July, SatCon signed a contract with Chrysler to develop "innovative new vehicle drive-train components." Some analysts believe SatCon is helping Chrysler produce a vehicle powered by a small gas-turbine engine and a flywheel energy-storage system. "SatCon is developing a cutting-edge flywheel that could replace the battery in powering electric cars," says Mike Connor, a money manager at Fahnestock.

Formed in 1985 by a group of engineers from the Charles Stark Draper Laboratory in Cambridge, Mass., and MIT, SatCon went public last year at 5 a share. It is now at 11. Connor thinks the stock could double again—in a year. SatCon "is the only pure play in companies working on the flywheel propulsion," says Connor. On Dec. 9, NASA awarded SatCon a contract to develop a high-speed flywheel energy source to help the agency produce lighter vehicles that launch shuttles. SatCon also signed in December a contract with an unidentified auto maker, which Connor swears is GM, to develop advanced power-steering components to improve handling and energy efficiency.

Connor expects sales of \$15 million and earnings of 25¢ to 30¢ a share in 1994 vs. estimated sales of \$5 million and earnings of 3¢ in 1993.

THE GLITTER AT REEDS

Over the years, the market hasn't been all that kind to jewelry stocks, but Reeds Jewelers is sparkling like a rock on a movie mogul's pinkie. Its stock has rocketed from 6 in mid-June to over 12 on Dec. 27. Are diamonds in vogue again?

Even if they're not, Reeds, after languishing for the past few years, is back. So insists one money manager, whose Boston-based mutual funds owns some 3% of the company's shares. He thinks that Reeds will be the stock to play in the jewelry retailing business as consumer confidence rises along with the economy. Reeds owns and operates 70 stores in malls in 11 states, principally in the Southeast.

"We're focusing on malls in upscale resort areas such as Hilton Head in South Carolina," says President and CEO Alan Zimmer. Reeds survived the recent recession, Zimmer contends, by avoiding rapid expansion and choosing store locations wisely.

Analyst Ken Gassman of Davenport & Co. of Virginia agrees that Reeds is in a strong comeback mode. He has raised his earnings estimate for the year ending February, 1994, to 90¢ a share from 80¢, and his fiscal 1995 figure to \$1.05 from 90¢. Reeds earned 61¢ in 1993. That's a far cry from what's happening at the bigger jeweler, Zales, which recently said it doesn't expect to achieve its previously projected earnings. Gassman expects Reeds to hit 16 over the short term.

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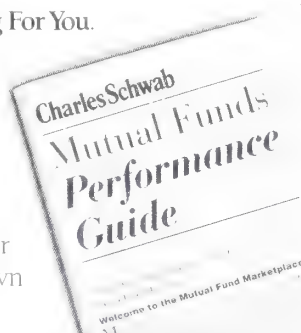
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MANUFACTURING Page 70



SERVICES Page 94



HIGH TECHNOLOGY Page 80



NATURAL RESOURCES Page 86



INTRODUCTION Page 60



FINANCE Page 102

INDUSTRY OUTLOOK

CLOCKWISE FROM TOP LEFT: PHOTOGRAPH BY MARK REED; THE ELMPIUS VICTORIA TOWER; JOE TANAKURA; GLEN MATHIE

IT WON'T TAKE YOUR BREATH AWAY, BUT...

THE ECONOMY IS POISED FOR MODEST, STEADY GROWTH THIS YEAR

It's about time. After more than three disappointing years, it looks as if the welcome momentum the economy showed in the second half of last year will continue well into 1994. Many key economic variables, from retail sales to manufacturing output to home buying, are perking up. Productivity is improving, and inflation is quiet. Consumers and businesses alike are taking advantage of the lowest interest rates in more than two decades to sharply reduce debt payments. Banks are healthy again and increasingly eager to lend. World trade will get a boost from the North American Free Trade Agreement and the new General Agreement on Tariffs & Trade.

Don't be misled: All this good news doesn't mean a rip-roaring economy in 1994. The quagmire economies of continental Europe and Japan are still restraining U.S. exports. At the same time, foreign rivals from China to Germany are competing fiercely for business in the U.S., the industrial world's strongest market. Brutal competition will also prevent any letup in corporate restructurings and downsizing—euphemisms for cost-cutting and layoffs. “The downsizing we’re seeing is not just a one-time thing,” says Jerrold B. Harris,

chief executive of VWR Corp., a laboratory-equipment supplier in West Chester, Pa. “It will continue until 1995—and may be beyond.”

THE BIG TAB. In the early months of 1994, the economy's pace may even decelerate from the fourth quarter's rapid rise. With personal savings low, the job market still shaky, and the bill for Clinton's tax hikes due, consumers could pull back on spending. The heated debate over health-care reform will continue to unsettle business—which is worried about the

size of the tab it will be forced to pick up. The ongoing defense and military base closings will remain a drag on growth.

Add it all up, though, and the economy appears poised for moderate, steady growth, hewing to a path between boom and slump. To economists, that means gross domestic product will rise at a 3% annual rate in 1994, after adjusting for inflation.

To business executives, the forecast is best summed up as one of cautious optimism. In a *BUSINESS WEEK*/Harris Executive Poll, 80% of respondents said they were at least somewhat optimistic in their outlook for the U.S. economy in 1994 (page C). Says C. E. Bryant Jr., president of Continental Conveyor & Equipment Co. in Winfield, Ala.: “The economy in general is slowly improving. But don't think it will be a boom year by any means.”

The important thing is that prosperity doesn't push inflation higher. That would drive up long-term interest rates and force the Federal Reserve to hike short-term rates, knocking the economy into a funk. True, as the economy's pace accelerates, supply and demand imbalances will send some prices soaring. With order books full, for instance, prices

LEADERS

With inflation in check and pent-up demand at healthy levels, these industries will thrive

AUTOS An aging auto fleet should fuel sales, and the strong yen is helping Detroit pick up speed

BANKS After two years of record earnings, banks are gearing up to make it three in a row

COMPUTERS A new generation of chips will put even more fire under blazing PC sales

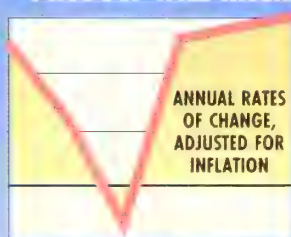
SECURITIES It'll be tough to top '93, but if rates stay down, Wall Street should do just fine

SEMICONDUCTORS Analysts expect 14% sales growth, and investment could rise a sizzling 24%

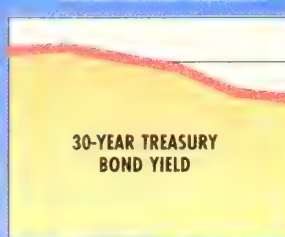
PORTRAIT OF STEADY GROWTH

As many economic variables perk up, the economy will find a path between boom and slump.

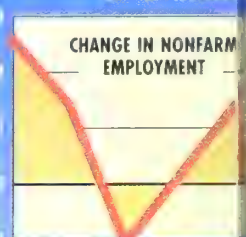
GROSS DOMESTIC PRODUCT WILL RISE...



...INTEREST RATES WILL STAY LOW...



...HIRING WILL PICK UP...



sum and scrap steel jumped in 1993. Still, something momentous has happened on the inflation front. Disinflation, not inflation, has become the norm much of the economy, from consumer goods to health care. Supervalu Inc., big food wholesaler based in Eden Prairie, Minn., has seen prices on manufactured grocery products fall for three years and expects no price increases this year, says Michael W. Wright, its chief executive. Given widespread disinflation in the health-care business, it's likely that medical prices are rising no faster than general inflation for the first time since the 1960s. Says Daniel J. O'Leary, chairman of Cincinnati Milacron: "By and large, we have a labor market where wages aren't pressured upward and inflation will be low."

Indeed, some economists believe inflation could fall well below the consensus expectation of 3% in 1994. Worldwide supplies of commodities are ample, international competition for jobs is fierce, and global industrial overcapacity is substantial. If the recent drop in crude-oil prices holds in 1994, that could trim about 1% from consumer price inflation. With productivity growth up from its abysmal 1%-a-year trend in the 1970s and 1980s, the economy can grow faster than before without triggering inflation. And the Fed will probably raise short-term rates by a modest 0.25% to 0.5% sometime in 1994 just to reassure the markets of its inflation-fighting credentials. "I'm not worried about inflation," says David Resnick, chief economist at Nomura Securities International Inc.

CALIFORNIA RISING? And low inflation means low interest rates. Homeowners have refinanced \$1 trillion worth of mortgages in the past two years. Consumer debt service, which has fallen to less than 16% of aftertax income after rising at over 18% in early 1991, will fall even further in 1994. Since the end of the 1990-91 recession, household net worth is up by some \$1.3 trillion, three-

quarters of the gain coming from rising stock and bond markets.

The housing market has benefited the most from low interest rates. Sales of existing homes were running at their highest level in more than a decade in the fall of last year, and associated outlays for household furnishings and appliances were strong for much of 1993. Even the California housing market, devastated by military demobilization and weak commercial construction markets, is showing definite signs of improvement. In fact, the California depression may be coming to an end. Says John C. Dannemiller, chief executive officer of Cleveland's Bearings Inc., an \$830 million industrial-parts distributor: "We used to say that with 50 branches [in

to U.S. companies—the blended cost of debt and equity financing—has dropped from 5.6% to 3.5%, calculates Mark Zandi, economist at Regional Financial Associates Inc. And capital equipment spending has risen at an 11% annual rate since mid-1991. "If we can keep the cost of capital down, there's a possibility we could see a real spurt in capital investment," says John W. Paxton, head of Litton Industries Inc.'s Industrial Automation Group, which is being spun off as part of Western Atlas Inc.

ANTI-JOB BIAS. The semiconductor industry is a case in point. Business is good, and many industry analysts expect a 14% sales increase this year. U.S. chip-makers will invest \$9.8 billion in 1994, up 24% from last year, according to VLSI

Research Inc., a market researcher in San Jose, Calif. Intel Corp. alone plans to spend about \$2 billion on new plants, primarily for its new Pentium microprocessor, which will go into millions of new personal computers. And there are indications that small- and medium-size companies also plan to invest more. A survey of 100 medium-size Chicago-area companies by Continental Bank Inc. found that 71% will make "significant" capital investments in 1994.

So far, however, the investment boom of the 1990s has had a distinct anti-job bias. A lot of the spending has been for labor-saving, productivity-enhancing machinery and information technologies, says Stephen S. Roach, economist at Morgan Stanley &

Co. Adds Allen Sinai, chief economist at Lehman Brothers Inc.: "The business upturn is being productivity-driven, as company after company does more with less, reducing unit labor costs and break-even points."

Although job growth will improve in 1994, it will remain muted. Many giant corporations will continue to slash their payrolls. In recent weeks, Xerox said it would cut at least 10,000 jobs; RJR/Nabisco, 6,000; and Philip Morris, 14,000. Some 40% of the 583,797 layoffs an-

LAGGARDS

Overexpansion, political battles, plunging military outlays:

A welter of woes for these industries

DEFENSE Contractors will have to resort to desperate measures to prop up earnings

ENERGY Average oil prices will be lower—but high enough to keep the industry in the black

PHARMACEUTICALS Health-care reform is the sword of Damocles, and bloated costs won't help

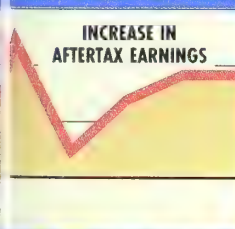
TRANSPORTATION The airlines could actually turn a profit in '94, but turmoil will rage on

UTILITIES The harsh winds of deregulation are blowing and could build to hurricane force

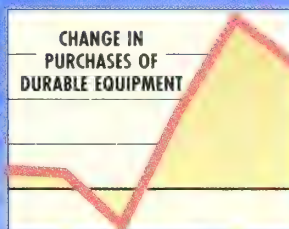
California] we had the largest share of the worst market in the country. Within the last six months, California has started to come back. We see it improving significantly."

Low interest rates are a boon to companies, too. Net interest payments by nonfinancial corporations now consume 20% of corporate cash flow, down from a peak of 30% in late 1989. And a low cost of capital will boost business spending on productivity-enhancing equipment. Since the end of 1990, the cost of capital

**PROFIT GROWTH
WILL FLATTEN OUT...**



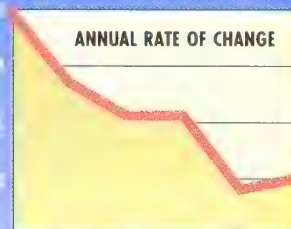
**...AND INVESTMENT
WILL BE STRONG...**



**...BUT PAY GAINS
WILL STAGNATE...**



**...AND EXPORT GROWTH
WILL REMAIN WEAK**



INDUSTRY OUTLOOK INTRODUCTION

nounced in the first 11 months of 1993 are slated to occur in the 1994-97 period, according to Challenger, Gray & Christman Inc., an international outplacement company. Wage costs are under tight control, with average hourly wage gains hovering around 2.3% at the end of 1993. "We'd rather work overtime than add people now because it costs so much to add people," says Richard J. Labrecque,

president of ITT Fluid Transfer, an industrial pumpmaker.

The pressure to keep costs under control is severe and unrelenting. Take McDonald's Corp. America's biggest fast-food chain attributes its 10% increase in sales at dinner since 1991 to its "Extra Value Meals," which package a sandwich, fries, and drink at a low price. "We don't have plans to raise prices.

Our primary initiative is to reduce costs," observes Chairman Michael Quinlan.

Certainly, the airline industry expects a better year after 1993's plummeting profits and labor strife. Simply put, travel will pick up along with the economy. But airline executives expect little relief on pricing. Competition is fierce, and more carriers emulate the low-cost strategy.

WHY OVERSEAS? 'CAUSE THAT'S WHERE THE SALES ARE

Talk to Sears, Roebuck & Co. Chairman Edward A. Brennan about the North American Free Trade Agreement, and he practically beams. Is the head cashier of America's Big Store hungry for inexpensive Mexican goods he can sell in the U.S.? Nope. Brennan's so excited because NAFTA will allow more and cheaper American-made goods to be sold in Sears' thriving stores in Mexico.

"There is an emerging consumer class in Mexico, and they want U.S. goods," says Brennan, who has seen Sears' Mexican sales quintuple, to \$500 million, in just six years despite high tariffs on such key goods as appliances. "As NAFTA lowers tariffs, prices are going to be lower. And that's going to make a subsidiary that's already growing faster than the company grow even faster."

HOT PROSPECTS. U.S. executives like Brennan are increasingly seeking their companies' fortunes beyond America's borders—from Mexico to Malaysia. International sales by U.S. multinationals—from exports, direct investment, or joint ventures—were \$1.2 trillion in 1991, 29% of corporate revenues. As economic globalization boosts demand in developing economies, and as trade barriers fall because of NAFTA and the recently revised General Agreement on Tariffs & Trade, that trend is likely to accelerate.



SIKORSKY CHOPPERS: U.S. AEROSPACE EXPORTS MAKE UP 34% OF SALES

Indeed, foreign trade will remain crucial for U.S. companies in 1994. The hottest prospects are developing nations such as Korea, Taiwan, and Malaysia. Their economies should grow 5.5%, 6.0%, and 8.0%, respectively, after inflation, according to the Organization for Economic Cooperation & Development. After China's move to cool down its red-hot economy, growth in Asia outside Japan will slow slightly—to a still-torrid 6.9%, figures Merrill Lynch & Co. economist William P. Sterling. And he forecasts that Latin America will grow 4.5% this year, vs. 3.7% in 1993.

Even recession-battered Europe, U.S. industry's chief foreign market, will fare better in 1994. "The worst is over for the major industrialized [European] economies," says Lehman Brothers Inc. Chief

2.5% last year and should grow 1994, according to DRI/McGraw-Hill. **SAME SOUPS.** No wonder many countries want in on the action. In the aerospace business, exports accounted for 34% of sales—up from less than 10% in the 1960s. Moreover, U.S. companies are raising production and people offshore: United Technologies Corp.'s Otis Co. Elevator unit logs its sales internationally, and five of its six employees work outside the U.S.

Wherever the production is, growing internationalism is forcing U.S. industries to rethink the way they do business. Campbell Soup Co. can't unit grew modestly when it offered the same soups it sells at home. But CEO David W. Johnston covets strong international sales.

FOREIGN SALES OF SELECTED U.S. INDUSTRIES

PERCENT SALES FROM FOREIGN OPERATIONS*



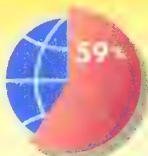
ALL U.S. INDUSTRY



MANUFACTURING



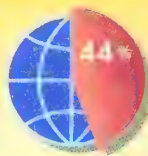
SERVICES



COMPUTERS/OFFICE EQUIP.



MACHINERY (NONELECTRICAL)



AUTOS AND PARTS



CONSTRUCTION/MINERAL PRODUCTS

*INCLUDES NON-U.S. SALES BY PARENT AND MAJORITY-HOLD FOREIGN OPERATIONS IN FEDERAL FISCAL YEAR 1991 (LATEST DATA AVAILABLE)

y of Southwest Airlines Co., the industry's most profitable airline. Moreover, the restructuring of Corporate America has eliminated many middle managers, the mainstay of business travel, and encouraged the use of teleconferencing. Both trends will "dampen the recovery in business travel," says Michael J. Durham, chief financial officer at American Airlines Inc. So American is cutting costs.

In many industries, the U.S. may be the world's most competitive manufacturer, but sluggish growth abroad is

hampering sales. Boeing Co., America's biggest exporter, saw its overseas shipments fall by 23%—from 243 jets to 188 jets—from January through November of 1992 vs. the same period in 1993. This looks like another disappointing year. Other industries, such as the chemical business, will face pressure on the export front, too.

Once growth picks up in Europe and Japan, however, the recent GATT trade accord, which lowered barriers on most manufactured goods, should benefit competitive U.S. exporters. "Once we are on

an even playing field, our European sales should be as great as those in the U.S. within 5 to 10 years," says Daniel B. Shure, chief executive of Strombeck Corp., a \$50 million toymaker headquartered in Chicago.

In the meantime, many companies are investing and hiring abroad, staking out a position for when the upturn comes. And not just in Europe and Japan but also in the world's fastest-growing regions, such as Asia, Mexico, and Latin America. In certain sectors—such as power generation, process controls, and

his product development—marketers to listen to consumers in developing nations. When Campbell regional favorites, cream of chile poblano, its Mexican sales slumped. "We're [formulating recipes] to their tastes, we had not been before," says Johnson.

GOING MARKETS. In the some of the fastest international growth will go to providers of services, because many U.S. industries have relatively low foreign exposure.

And the middle in developing nations

passing the incomes needed to pay mass, household, travel, and medical services long common in the West. "There's a dramatic [worldwide] shift toward services, and American companies have shown they have formulas when they've been allowed to enter foreign markets," says Rolf W. Bauer, senior fellow at the Institute of International Economics.

For instance, Toys 'R' Us Inc. is going to Japan despite the meager economic growth the OECD foresees next year. And Kmart Corp., has a growing operation in the Republic, will make an initial foray into Singapore in 1994. Explains Wal-Mart Inc. CEO David D. Glass, scouting new markets this year is chain's success with Mexican stores: "All over the world a great opportunity for our company work—and to work well."



TOYS 'R' US IN JAPAN: GOING GANGBUSTERS DESPITE A WEAK ECONOMY

Just ask Juergen Bartels, president of Carlson Cos.' Hospitality unit. Pushing American-style service and high-tech reservations technology, Bartels has expanded his Radisson Hotels International Inc. chain into Mexico, the former Soviet Union, and Eastern Europe—a region whose economy should grow 2% in 1994 and 3% in 1995. Carlson's TGI Friday's Inc. restaurants have found success in the Far East with their mix of American memorabilia and chatty, high-fiving waiters. "The [sales] volume at our restaurant in Seoul is double the volume of our average restaurant in America," says Bartels. "We're exporting American culture, and our experience shows the term 'global village' is not a hollow phrase."

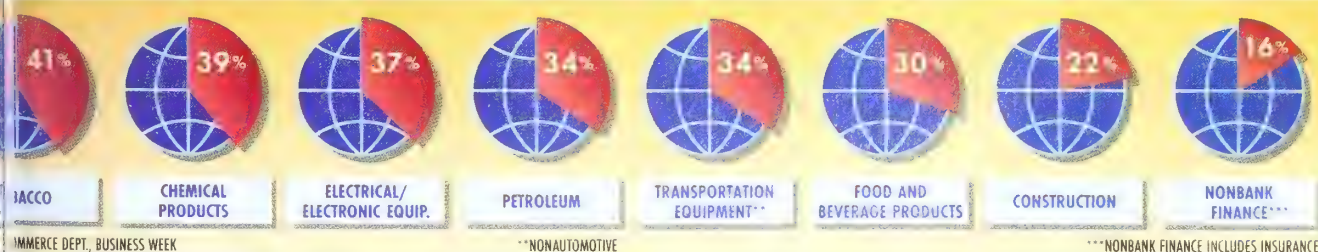
Other service-industry executives agree. Hospitals will step up efforts to recruit patients from Mexico, whose economy in 1994 is expected to grow 3.1%, the same as the U.S. The Mayo

Clinic in Rochester, Minn., which already serves 7,000 foreign patients annually, has opened an international practice staffed by multilingual doctors—plus an air service for foreign patients. "A global economy means that you provide services where they're provided best, and for many types of medical procedures, that's the U.S.," says Francisco H. Recio, chairman of the new Miami Medical Centers Inc., which serves Latin Americans who fly to the U.S. for care.

U.S. industries that expand globally do face risks—from currency shifts to volatile economies. Lift-truck maker Hyster-Yale Materials Handling Inc., based in Portland, Ore., has suffered a profit squeeze because the strong yen has boosted dollar costs for Japanese-made engines and other parts produced by its joint venture with Japan's Sumitomo Corp. "The yen has clobbered us," says Hyster-Yale President Reginald R. Eklund, who will use cheaper components this year from a Northern Ireland plant.

Still, executives like Eklund aren't eager to slam the door on more liberal global trade. The potential rewards are just too great. "It will be tough for America to adjust [to global competition and expansion], but it's a matter of survival," figures Carlson's Bartels. If he's right, U.S. industry will never again be able to gauge its health just by looking in its own backyard.

By James E. Ellis in Chicago, with bureau reports





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THE BABY BOOMLET MAY KICK IN A LITTLE GROWTH

During times of sluggish growth, consumers rein in their purchases, especially of big-ticket items like new cars and homes. And in recent years, many economists have focused on how demographic forces further dampen spending. Simply put: Baby boomers are getting older, reaching the age when they save more and spend less. And the younger, less-numerous baby bust generation by definition can't match the overall buying punch of its predecessors.

Now that the pace of economic activity is strengthening, however, some economists believe that two less-noticed demographic trends could provide an added lift over the next several years. For one thing, an upturn in the number of people in their early-to-mid-20s could bump up spending this year and next. In the late 1960s there was an uptick in the number of births, as the eldest baby boomers began having children and some young men deferred the Vietnam-era draft by becoming fathers. Those babies are now leaving home, graduating from college, finding work, and starting their own households. Many are also getting married.

EAGER TO WORK. And their spending on everything from new cars to new wardrobes will be buttressed by the lowest borrowing costs in a generation. Just as their parents did when they were thrust into adulthood, these people will spend more than they make, and the way they'll do that is to borrow money. It's a pattern, in fact: Those in their young adult years, especially those reaching 25 years of age, typically display a sharp increase in spending, says Richard F. Hokenson, chief economist at Donaldson, Lufkin & Jenrette Securities Corp.

Immigration will help boost demand, too. The Census Bureau has increased its previous estimate of population

growth in the 1990s by 42%, largely because of powerful immigration flows. This year alone, 1 million new immigrants are expected to arrive—many well-educated and all eager to work. If the Census Bureau's new population growth projections are right, the number of new household formations in the 1990s could hit 1.3 million a year, about the same as in the 1980s—and far better than the previous estimate of only 1.1 million.

CLEAR-CUT BOON. In light of these demographic forces, and the depressed levels of consumer expenditures over the past several years, there should be plenty of pent-up demand in 1994. Economist Mark Zandi at Regional Financial Associates in West Chester, Pa., puts the figure at \$75 billion, after adjusting for inflation. About \$25 billion of the total is for new-home purchases, the economy's strongest sector in the latter part of 1993. The rest is for consumer goods, a boon for such diverse industries as auto makers, furniture manufacturers, and producers of major appliances.

True enough, \$75 billion is modest when measured by the yardstick of the previous economic recovery: Pent-up demand in 1984 totaled \$250 billion and helped fuel the heady boom of the Reagan years. But \$75 billion is a large enough sum to lift real gross domestic product growth by a hefty 1.5% in 1994.

Of course, there's no guarantee that this effect will materialize. "Even with a lot of pent-up demand, it is hard to unleash it, given the trends in low savings, weak employment, and stagnant wages," observes Zandi. Still, once the business cycle finally makes a strong turn for the better, consumer demand could well drive the economy faster than many economists are now anticipating.

By Christopher Farrell in New York



infrastructure—international is the game in town. At General Electric the biggest customer for power-generating equipment is Tokyo Electric Power with Korea Power not far behind. Reuters Pier 1, Kmart, and Wal-Mart are going international, too (page 62).

Thus far, capital investment and interest-rate-sensitive sectors of the economy, such as housing and autos, have paced the recovery. If inflation stays low, the sectors that have been strong in 1993 will remain strong in 1994. But there is an economic wild card, that, if played, would prove the consensus expectation of 3% growth too conservative. That's the Information Superhighway.

The competitive race between telecommunications, television, and entertainment companies to build interactive superhighways could spur an investment boom beginning in 1994. Spending everything from software to fiber-optic cables would ripple through the economy, generating jobs for entrepreneurial engineers, and blue-collar workers alike. The expenditures would also benefit the entertainment industry, which will create new programming and movies for the interactive age. And most of the money risked on developing the Information Superhighways will go to U.S. companies, which dominate most of the industries.

THE RIGHT DIRECTION. True, much as the commercial real estate boom of the early 1980s, billions will be wasted in the jockeying for position along the information Superhighway. But the economic impact from such investment spending could be powerful nonetheless. How much spending is unleashed in 1994, though, depends greatly on a favorable regulatory climate and a quick transformation of multibillion-dollar corporate visions into actual projects.

Whatever the economic impact of the coming convergence of media, computer, and communication technologies, the economy is headed in the right direction. Improved economic activity, even with some moments of nerve-racking hesitation, builds its own powerful momentum. For U.S. industry, which has struggled through one of the longest periods of anemic growth in modern American history, that is welcome news indeed.

By Christopher Farrell in New York with Richard Melcher and Lois Therrien in Chicago, Zachary Schiller in Cleveland, Robert D. Hof in San Francisco, Wendy Zellner in Dallas, and Dori Jon Yang in Seattle

CAUTIOUS OPTIMISM IN THE CORNER OFFICE

st, some questions about the economy.

THE BIG PICTURE

Overall, how would you characterize your outlook for the U.S. economy 1994—would you say you are very optimistic, somewhat optimistic, somewhat pessimistic, or very pessimistic?	Very optimistic.....	3%
	Somewhat optimistic.....	80%
	Somewhat pessimistic.....	16%
	Very pessimistic.....	1%
	Not sure.....	0%

STEADY GROWTH

The gross domestic product increased about 3% this year. Do you think this rate of growth will go up, go down, or stay the same in 1994?	Go up.....	25%
	Go down.....	9%
	Stay the same.....	65%
	Not sure.....	1%

INFLATION OUTLOOK

The rate of inflation, based on the CPI, has been around 3% for the last twelve months. Do you think this inflation rate will go up, go down, or stay the same in 1994?	Go up.....	40%
	Go down.....	5%
	Stay the same.....	55%
	Not sure.....	0%

INTEREST RATES RISING

The 30-year Treasury rate is now around 6%. Do you think the 30-year Treasury rate will go up, go down, or stay the same in 1994?	Go up.....	67%
	Go down.....	5%
	Stay the same.....	27%
	Not sure.....	1%

UNEMPLOYMENT

The latest unemployment rate is now around 6.4%. Do you think the unemployment rate will go up, go down, or stay the same in 1994?	Go up.....	21%
	Go down.....	34%
	Stay the same.....	44%
	Not sure.....	1%

OUR COMPANY

Would you now ask some questions about your expectations for your company over the next twelve months. Please give your best estimate. Do you think each of the following will increase or decrease between now and December 1994?

	Increase	Decrease	Same	Not sure
Sales	90%	2%	5%	3%
Full-time employees	46%	33%	20%	1%
Investment in plant and equipment	65%	13%	17%	5%
Market prices of standard products				
Services	57%	15%	25%	3%
Imports	56%	3%	14%	27%
Wage and salary rates	91%	2%	5%	2%
Healthcare costs per employee	79%	10%	9%	2%
Investment in research & development	52%	14%	24%	10%

BLACK INK

Did your company make a profit in 1993?	Yes.....	94%
	No.....	5%
	Not sure.....	1%

PLEASANT PROSPECTS

(If yes) Do you think your profits will increase or decrease in 1994, compared with 1993?	Increase.....	86%
	Decrease.....	6%
	Same.....	5%
	Not sure.....	3%

WORRIES ON HEALTH CARE

■ From what you have heard of it, do you think President Clinton's health-care plan, if it is passed by Congress and implemented, would:

	Would be better for your company than the system we have now?	Would not change	No	Not sure
Help your company control its health-care costs?	15%	75%	4%	6%
Discourage your company from hiring new employees?	19%	74%	2%	5%
Act as a net drag on the U.S. economy?	32%	61%	2%	5%
	81%	14%	0%	5%

CHEERS FOR NAFTA

■ What impact do you think the passage of NAFTA will have on your business in 1994—a positive impact, a negative impact, or no impact?	Positive.....	51%
	Negative.....	1%
	No impact.....	48%
	Not sure.....	0%

MERGER INDEX

■ How likely do you think it is that your company will be involved in a substantial merger or acquisition in 1994—very, somewhat, not very, or not at all likely?	Very likely.....	18%
	Somewhat likely.....	25%
	Not very likely.....	25%
	Not at all likely.....	27%
	Not sure.....	5%

MORE CONCENTRATION

■ Do you think that there will be consolidation in your industry in 1994, or not?	Will be consolidation.....	75%
	Will not be consolidation.....	22%
	Not sure.....	3%

FALLING TARIFFS ARE A PLUS

■ If tariff barriers in the U.S. and our major trading partners continue to fall in 1994, will this be helpful or harmful to your company?	Helpful.....	75%
	Harmful.....	2%
	Neither.....	20%
	Not sure.....	3%

FOREIGN SALES WILL RISE...

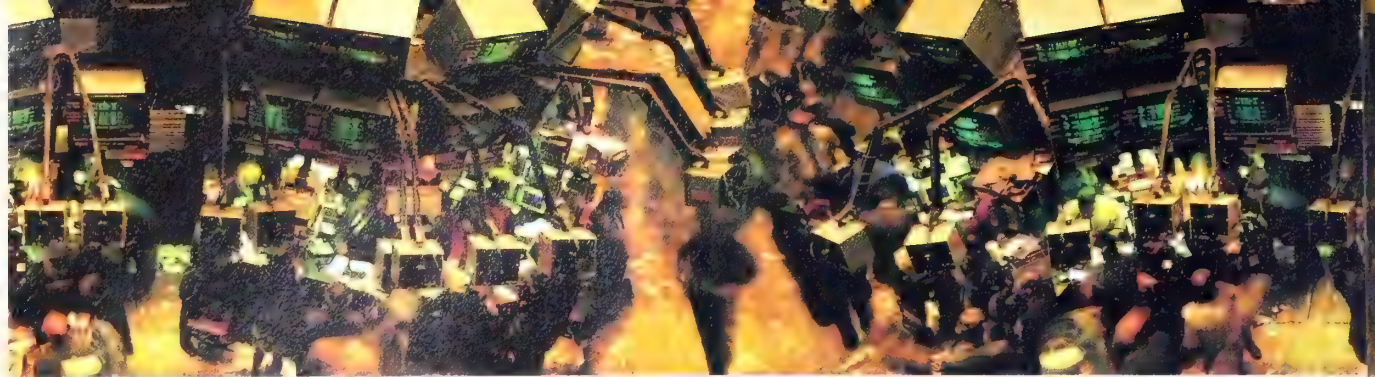
■ Do you think that your foreign sales will be a higher or lower percentage of your total sales in 1994 compared to 1993?	Higher.....	49%
	Lower.....	7%
	Same.....	13%
	No overseas sales.....	28%
	Not sure.....	3%

... AND SO WILL WORK FORCES

■ Do you think the proportion of your full-time work force that works outside the U.S. will be higher or lower in December 1994 than it is today?	Higher.....	33%
	Lower.....	9%
	Same.....	26%
	No overseas work force.....	30%
	Not sure.....	2%

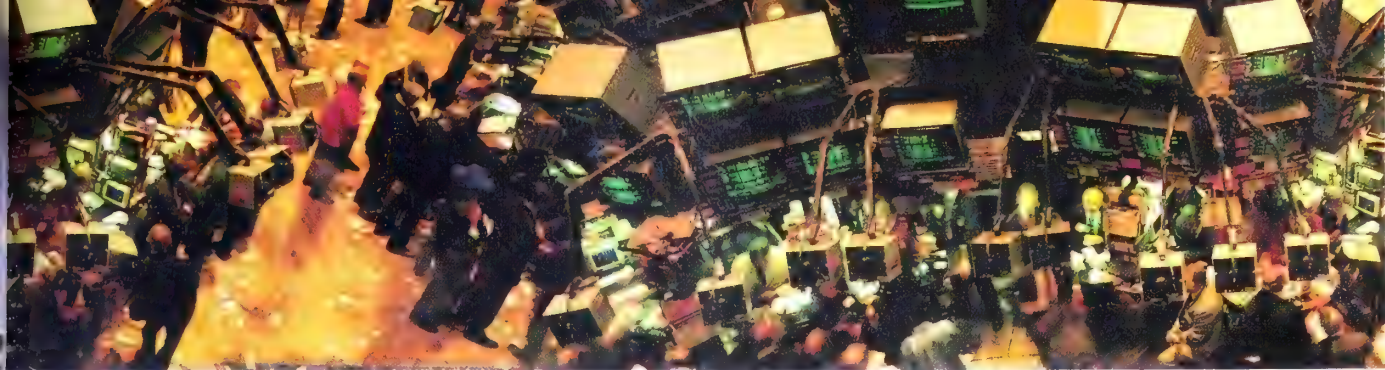
Edited by Mark N. Vamos and Christopher Power

Survey of 402 senior executives at corporations drawn from the BUSINESS WEEK 1000. Interviews were conducted Dec. 10-20, 1993, for BUSINESS WEEK by Louis Harris & Associates Inc.

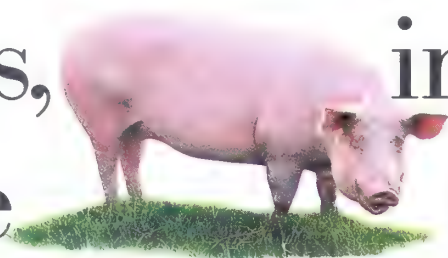


What makes Wall Street
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of companies, industries,
and all those other
is don't understand?



PCs, workstations and midrange computers, linked to

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moving
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measures are
needed
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on this market
as demand rises
Page 73

STEEL

Labor peace
and high
expectations
Page 74

CHEMICALS

Leaner and
meaner, its
profits are
rising again
Page 76

FOOD PROCESSING

Cost-cutting
should plump up
results
Page 78



VALUE WILL KEEP DETROIT MOVING

Big Three quality and prices have put a dent in imports

As auto rebounds go, the current one is slow and uneven. But industry executives, who spent most of last year hoping that the sales recovery would hold, will breathe easier in 1994. They expect to sell about 14.8 million cars and light trucks, up 6%—a good, if not booming, year. First-quarter U.S. car production may rise 15% from 1993. Light-truck output will jump 18%, according to *Ward's Automotive Reports*.

Consumer confidence is still a concern for carmakers, as 1993's seesaw market showed: Sales perked up in spring, flattened in summer, then surged in the fall. For the year, they rose 8.5%, half of normal for an economic rebound. But Detroit is getting more of those buyers. Ford Motor Co. and Chrysler Corp. gained 2.5 points of market share. Beleaguered General Motors Corp. lost nearly a point as it slashed unprofitable sales to rental-car companies. Even so, the Big Three have added 3.4 points since 1991, to 73.8%, and may hit 75% this year.



That trend won't last forever. "Down the road, the most potent competitor I see is Japan," says Alexander J. Trotman, Ford's chairman. "They have some difficulties, but they're only temporary." Temporary, but nagging. The soaring yen, up 13% against the dollar last year, forced the Japanese to raise prices again, by 3% to 4% for 1994 models. The Big Three held their increases to an average 2%. That gives them a price advantage of \$3,100 per car, up from \$2,500 last spring, says Salomon Brothers Inc. analyst John V. Kirnan. With U.S. car quality rivaling that of Japan, consumers are harder-pressed to justify buying an import.

And Detroit's strong suit matches the consumer's mood. "People are taking extremely good care of their money," says Jack Feuer of J.D. Power & Associates Inc. Consumers polled by Power listed personal finances as the biggest deterrent to buying a car (vs. high prices 10 years ago). The average car is now 8 years old, meaning some customers can't wait much longer. But uncertainty about everything from job security to health-care reform is spooking buyers.

EXTRAS. Detroit is playing to that with "value pricing," which is giving some new models a jackrabbit start and breathing life into aging ones. The most startling example is Chevrolet's 12-year-old Cavalier: GM cut the compact's base price \$379, to \$8,520 including extras like antilock brakes, and sales jumped 26%, making it the

fifth-best seller in the U.S. last year. A base price below \$13,000 and canny marketing gave Nissan Motor Co.'s Altima midsize sedan a surprisingly strong launch. Others have taken note: Honda Motor Co. kept the base price of its all-new Accord at the old one's \$14,330. Ford's Mustang, out in December, and Chrysler's Neon subcompact and Oldsmobile's Aurora sedan, both due this year, are priced low for their markets.

Price consciousness may be here to stay. The average car now costs about \$18,500, half the median U.S. family income, up from \$11,450, or 44% of income, in 1984, according to the American Automobile Manufacturers Assn. Leasing helps ease the shock by adjusting terms to keep monthly payments low. That's why leasing has boomed to 25% of overall car sales, and to 77% for some luxury models, such as Jaguar.

Even a stronger economy won't reignite prices. "I don't see much change," says GM CEO John F. Smith Jr. "Consumers have told us what they want." Trotman adds that industry overcapacity—mostly GM's—will

help keep down prices, too. "I think it's going to be a tough 'value market' even as the industry grows," he says.

MORE TRUCKS. That will force a renewed focus on costs. Chrysler's vaunted new-product teams have already proven that winning vehicles can be designed on penny-pinching budgets. Now, Ford and GM are working on ways to design and build new vehicles more efficiently. Salomon's Kirnan expects Ford to earn \$4 billion this year, up 60%, on sales of \$103 billion. Analyst David Bradley at J.P. Morgan Securities Inc. figures Chrysler will earn \$2.7 billion, a 29% increase, on \$52 billion in sales. Smith has vowed that 1994 is GM's "no excuses" year to get its North American auto operations back in the black for the first time since 1988.

As Detroit aims for these profit targets, it has a couple of other factors in its favor. The biggest is its dominance of the fast-growing truck market—a 92% share. Trucks accounted for 38% of all light-vehicle sales last year, up from 21% in 1980, and the trend shows no signs of slowing. In addition, the North American Free Trade Agreement is expected to increase sales to Mexico, the fastest-growing auto market in North America. Add to the mix a decent U.S. economy, and Detroit may decide that long, gradual recoveries beat the rapid booms-and-busts of the past.

By Kathleen Kerwin in Detroit

PROGNOSIS '94

MOTOR VEHICLES & PARTS



EMPLOYMENT



PRODUCTIVITY



POSITIVES

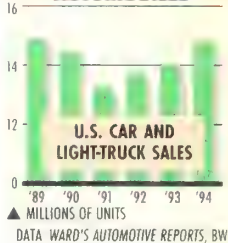
- An aging auto fleet—the average is 8.1 years —should help boost demand.
- Higher quality and a strong yen are helping Detroit regain market share. U.S. carmakers have a \$3,100 per-car price advantage.

NEGATIVES

- High prices—the average is \$18,500—could dampen sales.
- Overcapacity at GM should keep pressure on Big Three profits.

SPOTLIGHT

AUTOMOBILES



DATA: WARD'S AUTOMOTIVE REPORTS, BW

CUTS WON'T CUT IT ANYMORE

Contractors will have to resort to more desperate measures to prop up earnings

PROGNOSIS '94



POSITIVES

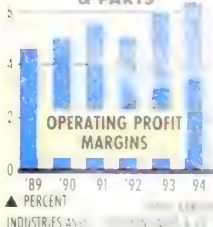
- Cost-cutting will continue to clean up balance sheets and reduce debt
- Cash flow from mature programs and low interest rates should spur acquisitions.

NEGATIVES

- Pentagon cuts may mean 100,000 more jobs lost and shrinking sales
- Investment in new technologies will slow as the industry's future remains uncertain

SPOTLIGHT

AIRCRAFT, MISSILES & PARTS



If you were a defense worker in 1993, there's a good chance you lost your job. But if you were an investor, odds are you doubled your money as defense stocks soared. Only part of that scenario may hold for 1994. The industry may cut 100,000 more jobs on top of 600,000 so far. What's less certain is Wall Street's mood. "Some companies are no longer going to have continued earnings growth. It's just not in the cards," says Dan Tellep, chief executive of Lockheed Corp.

Washington will cut arms outlays 11% this year, to \$62 billion—39% below the 1987 peak of \$101 billion. In 1993, industry cost-cutters raced ahead of the Pentagon, slashing jobs—especially in managerial and engineering ranks—faster than revenues tailed off. As productivity soared, the companies reaped the rewards. Meanwhile, the industry scaled back on reinvestment that had been essential during the cold war to prepare for the next round of programs.

SLENDER PIPELINE. McDonnell Douglas Corp. illustrates the benefits of such moves. Starting in 1990, it pared 40% of its work force. Combined with aggressive debt reduction, that helped operating profits soar last year, from \$346 million to an estimated \$940 million, and the company's stock price more than doubled. Overall, net profit margins for 22 major aerospace companies rose 17% in 1993, to \$7.2 billion, estimates analyst Howard Rubel of Goldman, Sachs & Co.

With only a handful of new weapons systems in the Pentagon pipeline, arms makers will find it tougher to show such improvement this year. Cost-cutting may allow some to post profit gains again, but as revenues shrink, even the strongest will start to suffer. Lockheed faces declining orders for its F-16 fighter, a program it acquired from General Dynamics Corp. just last year. McDonnell Douglas will see cuts in its Apache helicopter and probably in its C-17 transport programs. Northrop Corp. will be especially hard-hit. Outlays for the B-2 bomber, which accounts for half its revenues, peaked at \$5.3 billion in 1989. They will fall to \$1.7 billion in 1994. Although Northrop's cash flow is still strong, analysts expect its stock to underperform the market.

The industry will have to go beyond mere layoffs to steady earnings in 1994. A fresh wave of consolidation looms, and some sectors will narrow. The prime contractor. Lacking orders for its Seawarrior, Tenneco Inc. may have to cede the shipbuilding business to General Dynamics' Electric Boat Division and focus on aircraft-carrier work instead.

With stock prices high, outright acquisition may be rare. Instead, contractors will continue shuffling assets, acquiring each other's divisions to bulk up product lines. After spending \$1.5 billion last year for the F-16 business, Lockheed may sell or shutter such ventures as its commercial aircraft maintenance unit. Martin Marietta Corp. plans to buy GD's rocket-launch business.

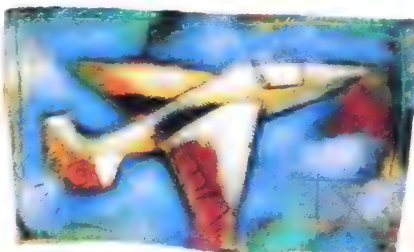
Diversified conglomerates such as Rockwell International, TRW, and Textron may trim their defense units. Meanwhile, consolidation will let opportunistic companies such as electronic systems makers Loral Corp. and E-Systems Inc. become leaders. With a frenzy of acquisitions, including Ford's aerospace unit, LTV's missile division, and IBM's defense computer business, Loral has built itself into a \$6 billion company.

Unlike in other downturns, arms makers can't count on much relief from foreign military sales or commercial aerospace. As domestic sales plummet, exports are becoming a larger piece of total defense business. Even so aerospace exports fell 15% in 1993, to \$6.9 billion, and should stay flat in 1994, according to the Aerospace Industries Assn. The few big orders will be hotly contested. Lockheed and McDonnell are vying for a \$1.8 billion order from Israel for 20 fighter jets.

"ENDGAME." Some companies will adopt unusually radical strategies. Litton Industries Inc. is breaking into two companies: a defense-oriented electronics unit bent on survival through acquisition, and Western Atlas International Inc., a \$8 billion oil-services and industrial-automation business. Some analysts think Hughes Aircraft Co. may try a similar strategy. Hughes, which gets two-thirds of its revenues from defense, is betting on new commercial ventures stemming from its military satellite business. This year, it will kick off DirecTV, a satellite service that will beam programs into homes. Spaceway, a separate satellite data system due in 1998, would blanket the U.S. with wireless video and phone services and compete with fiber-optic networks to deliver interactive programming.

Hughes's commercial push is risky, and most other defense contractors haven't gotten close to such gambles. After a year of hefty profits, even as business dries up, "the question now is where does it all end and how do you play the endgame?" asks Rubel. That's what industry executives will be scrambling to answer in 1994.

By Eric Schine in Los Angeles



NO RUST ON THIS MARKET

U.S. machine-tool makers have become more competitive, and demand is up

At Alvey Inc., the St. Louis maker of conveyors, Vice-President Roger L. Alderink wonders if production can keep up with demand. U.S. conveyor orders probably exceeded a record \$4 billion last year. Things are hot, too, at machine-tool maker Fadal Engineering Co. in Chatsworth, Calif. It just moved into a new headquarters, and it's turning out 125 machine centers a month, up 25% from a year ago. In fact, U.S. machine-tool orders are the best they've been since 1988.

Machinery makers don't expect a full-blown boom in 1994. Disastrous economies in Europe and Japan are hurting producers with sales there and causing substantial worldwide overcapacity for machine tools, materials-handling gear, pumps, and compressors. And big new plants are scarce most of the industrialized world. All of which adds a lid on prices and profits.

Still, U.S. makers of factory machinery will have good times in 1994. Industrial production is rising, capacity utilization has climbed to 83%, interest rates remain low, and auto and other durable consumer-goods makers are buying more equipment. So are industries in Asia, outside Japan. That's where "the really big jobs are," says Thomas E. Bennett, president of Ingersoll Dresser Pump Co. (IDP). China has become the No. 2 export market for U.S. machine tools, after Canada. And Bennett says IDP has picked up pump contracts for a big refinery in Thailand and for power plants in Malaysia and Korea.

STRONG YEN. U.S. machinery makers can compete in these markets because they have become low-cost producers compared with the Japanese and Germans. U.S. labor is cheaper, and "we've done a lot to get our base in line," says John W. Saxton, head of Litton Industries Inc.'s Industrial Automation Group, which is being spun off as part of Western Atlas Inc.

Japanese machinery makers, socked by the strong yen, are being priced out of the market. To compensate, they're shifting more production to the U.S. Consider Mitsubishi Caterpillar Forklift America Inc., a joint venture 80%-owned by Mitsubishi Heavy Industries Ltd. Its plant in Houston is now bigger than its Tokyo operation. "We're trying to find [more] North American suppliers" in addition to those who are already providing lights, seats, and tires for its lifts, says Larry Wuench, director of marketing.

Japanese producers are suffering, too, because their home market is so depressed. "I don't know

of any Japanese machine-tool builder that's not losing money," says John D. Hendrick, president of Okuma America. Okuma will expand its profitable U.S. operation this year, while its parent, Okuma Corp., eliminates jobs back home near Nagoya, Japan. Indeed, the restructuring so common in the U.S. is spreading abroad. In Germany, Deutsche Bank and other banks have persuaded two leading machine-tool makers, Maho and Deckel, to merge, and they will jointly sell products with a third, Gildemeister. As a big market, and one of the healthiest, the U.S. is attracting more machine-tool imports again—up 14% for the first nine months of last year.

"WAR ON COSTS." Worldwide, there's just too much capacity. In the pump business, which is weak even in the U.S. since big customers in process industries such as pulp, paper, and energy remain depressed, prices are no higher than five years ago. Chronic discounting for forklift-trucks has eased a bit. But Reginald R. Eklund, president of Hyster-Yale Materials Handling, sees a continuing "disinflationary climate, not only for our products, but for [all] capital items." That means "a continual war on costs," he adds. At Hyster-Yale, which is typical, that includes "enthusiastic discussions" with suppliers on improving efficiency and chopping prices.

And restructuring and consolidation, though slowing, are continuing. Cooper Industries Inc. has decided that industrial air compressors don't fit its mix and is spinning off its Gardner-Denver Industrial Machinery Div. Clark Material Handling Co., acquired by Terex Corp. in 1992, has struggled to stay afloat. Unable to pay suppliers, Clark wasn't able to keep up with its order backlog last year. Despite the doubts of some rivals, Terex President Ronald M. DeFeo claims

Clark will be up to full production by the end of the first quarter, thanks to a just-completed \$30 million private placement.

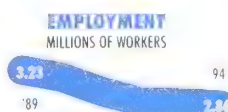
Not surprisingly, business looks strongest this year for producers whose machines promise lower costs and higher quality. Daniel J. Meyer, chairman of Cincinnati Milacron Inc., says that two-thirds of his company's machine tools go to manufacturers seeking higher productivity, as opposed to new capacity. At Alvey, the spurt in orders comes from manufacturers that must deliver products to demanding retailers more efficiently. This year will bring better times for machinery makers, but it will also be another year of the customer.

By Zachary Schiller in Cleveland

PROGNOSIS '94

MACHINERY
EXCLUDES COMPUTERS &
SEMICONDUCTORS

'93 AND '94
ESTIMATES



DATA: DRI/MCGRAW-HILL

POSITIVES

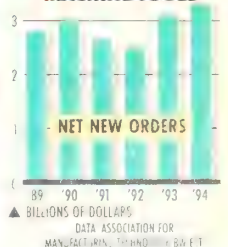
- ▶ Rising U.S. industrial production will boost demand for new machinery.
- ▶ The U.S. is now a more cost-competitive place for capital-goods manufacturing.

NEGATIVES

- ▶ Weak economies in Europe and Japan will hurt exports and prices.
- ▶ Aerospace and many process industries are depressed and won't be big buyers of new equipment.

SPOTLIGHT

MACHINE TOOLS



BIG STEEL'S BIG OPPORTUNITY

It should be a banner year—perhaps the first of many if the right steps are taken

PROGNOSIS '94



DATA: DRI/MCGRAW-HILL

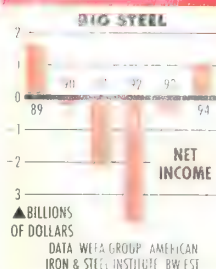
POSITIVES

- ▶ Demand is strong, and price hikes seem to be sticking.
- ▶ Big Steel now meets or exceeds European and Japanese productivity

NEGATIVES

- ▶ Oversupply and slack demand in Europe and Japan may undermine U.S. prices.
- ▶ Price wars could rage this year in structural steel and rails.
- ▶ Russian steel could swamp Western markets

SPOTLIGHT



United Steelworkers President Lynn Williams couldn't have picked a better year than 1993 to negotiate new labor contracts. Steelmakers, watching their markets recover after three years of recession, wanted to keep their workers on the job to meet a slew of big orders. This desire helped Williams win six-year deals that give his members both job security and representation on the boards of America's biggest steel companies, including Bethlehem, Inland, and the U.S. Steel division of USX. The new power-sharing is controversial among managers, who warn darkly of "inmates taking over the asylum." But for Big Steel, the contracts guarantee stability during what promises to be their best year yet in the 1990s.

Certainly, the \$42 billion basic steel industry is entering 1994 with high expectations. The leading companies broke into the black in the middle of last year, then produced flat out—filling domestic orders of 88 million tons, a 6% jump from depressed 1992. Order books are full through the first quarter, what with the economy growing and the auto and appliance industries raising production. Overall, steelmakers are banking on shipments to rise 3% this year, to 91 million tons, says Andrew Sharkey III, president of the American Iron & Steel Institute. Signaling this confidence, producers have announced price hikes of 4% in January and 2% in June on flat-rolled steel used in cars and appliances. For a change, analysts think both could stick. "If you're not making money in this market, you'd better roll it up," says Keith Busse, a former Nucor Corp. manager who is raising funds to start his own steel mill.

SCRAP BOOM. The main problems facing steelmakers this year are recessions in Europe and Japan, which have led to oversupply and lower prices there. At the end of last year, for instance, the U.S. spot price for hot-rolled steel was \$375 a metric ton vs. \$260 for export from Europe. It costs \$65 a ton to ship steel across the Atlantic. That gives an incentive to foreign steelmakers—who won a majority of the 84 trade cases U.S. companies filed against them last year alleging illegal dumping—to boost shipments from the 18 million tons they sent in 1993. The economics of "that would be irresistible for many of us," says a New York-based representative of a major European steel company.

Wary of such talk, American executives are threatening more suits. If foreign competitors "be smart, they'll trade fairly," says David H. Hong, chairman of LTV Corp. "They probably

need to make some money also." The best insurance against price erosion, however, would be economic recovery in Europe and Japan, plus resurgence of Chinese buying. It zoomed last spring—going at a 30-million-ton annual rate before it collapsed again. In 1994, PaineWebber analyst Peter Marcus says China may buy 1 million tons.

MINIS MAULED. Even as steel executives worry about price pressure from abroad, they're getting relief at home in the form of the booming scrap steel demand. Last year, scrap prices rocketed from \$84 to \$132 per ton. This adds nearly \$4 per ton to the costs of Big Steel's stateside neighbors, the minimills, which start their production process by melting scrap in electric furnaces instead of smelting iron ore, limestone, and coke in a blast furnace. Led by Nucor, North Star Steel, and Birmingham Steel, the minimills are angling for most of Big Steel's markets, from galvanized sheet to structural girders to flat-rolled steel. For now these efforts are being inhibited by the high scrap price, which has wiped out much of the \$70-per-ton advantage

the minis get from their better productivity.

"The spread between scrap and steel's selling price are lousy," grouses Birmingham Steel Corp. Chairman James A. Todd. "It's below the bankruptcy line for minimills." This is forcing the minis to push up prices, which is just what Big Steel needs. According to Salomon Brothers estimates, industry leader U.S. Steel, after losing \$258 million last year, should earn \$323 million in 1994 on revenues of \$5.86 billion, up 8.5%. Players No. 2 and 3, Bethlehem Steel Corp. and LTV, should turn around, too.

Big Steel badly needs these profits. The companies are counting on them to help finance the next round of investments—and prepare for what promises to be a killer market in the late '90s. Already, some 5 million tons of minimill capacity is set to come on stream by mid-decade. This will be low-cost competition, especially if scrap price falls as they should when new supplies come in from Russia and Eastern Europe. What's more, the new General Agreement on Tariffs & Trade could weaken the Americans' trade weapons opening the U.S. market to a world with nearly 80 million tons of excess capacity. The upshot is clear: To survive into the next century, U.S. steelmakers must make money this year and next—and spend it wisely.

By Stephen Baker in Pittsburgh

A Clear View of Latin America

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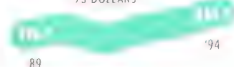
LEAN, MEAN, AND... HEALTHIER?

The years of decline may be over, but producers are wary of overcapacity

PROGNOSIS '94

CHEMICALS EXCLUDES PHARMACEUTICALS

OUTPUT
BILLIONS OF
'93 DOLLARS



EMPLOYMENT MILLIONS OF WORKERS



PRODUCTIVITY THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

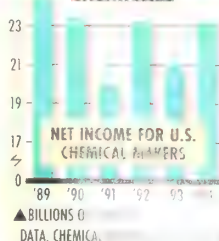
- ▶ Cost-cutting will bolster the bottom line.
- ▶ Sales to Latin America and Asia should rise.
- ▶ Cheap oil will help contain costs.
- ▶ Rebounds in housing, autos will boost revenue.

NEGATIVES

- ▶ Price increases will be hard to come by.
- ▶ Tough times in Europe will dampen growth
- ▶ Overcapacity in a wide range of basic chemicals will intensify competition.

SPOTLIGHT

CHEMICALS



Downsizings and spinoffs have been the hallmark of the chemicals business over the past three years, and now they could be about to pay off. Sales of chemicals may rise only 5% this year, to about \$327.6 billion, according to a survey of 107 producers by the Chemical Manufacturers Assn. (CMA). But cost-cutting could boost profits 10%, to \$23.1 billion, recouping last year's 10% decline. In fact, some analysts think 1994 will start the industry on a climb back toward pre-recession prosperity.

Industry executives can't take that for granted. Worldwide, there's still overcapacity in many chemicals and prices may stay flat all year. Even dirt-cheap oil—which holds down the cost of the feedstocks from which chemicals are made—can't compensate for that. Facing similar conditions last year, American Cyanamid, Ethyl, and Eastman Kodak all decided to spin off chemical units to focus on drugs, petroleum additives, and imaging products, respectively. DuPont Co. wrapped up two years of downsizing, during which it eliminated more than 17,000 jobs, or 12.7% of its work force, by selling its Remington Arms Co. After deducting \$1 billion in write-offs, the chemical giant earned only about \$800 million on revenues of \$36.8 billion.

This year, DuPont's profits should reach \$2.4 billion on sales of \$38.6 billion, estimates analyst Paul Raman of S.G. Warburg & Co. The improvement will reflect rebounds in two of its major markets, autos and housing, plus a continuing effort to lean down to its "core competencies" in chemicals, fibers, and polymers. That campaign will eliminate at least 2,800 more jobs, nearly half in Europe. Across the industry "we'll see a lot more spinoffs" this year, adds Raman. Some possibilities he sees: DuPont could jettison its \$1.8 billion imaging business, or—a long shot—its \$15 billion Conoco unit. DuPont won't comment, but has long insisted that it plans to keep Conoco. Such moves are possible, Raman says, because the asset values of chemical producers are rising as the U.S. market revives and as European producers prepare to shrink.

SAFER ANTIFREEZE. For players who stay in the game, it will be more important than ever to be a low-cost producer and to develop novel uses for products. Arco Chemical Co., for example, may have found a winning use for propylene glycol, a derivative of the commodity propylene oxide, which is used in car seats and furniture. Safe Brands Corp. in Omaha is using propylene glycol in a new antifreeze called Sierra, which it

claims is safer than ordinary antifreeze, since it doesn't contain poisonous ethylene glycol.

Even though new products are crucial, the industry isn't exempting research from its cost-cutting drive. After rising an estimated 4.3%, to about \$14.5 billion last year, R&D spending may grow just 3% this year, according to the CMA. Industry heavyweights, after overexpanding in the late 1980s, also plan to remain stingy with capital outlays, which may rise little more than 2.5%, after a paltry 1.8% increase last year, to \$23.4 billion. The industry will be able to make do: In 1993, its plants ran at 81.2% of capacity, only a half-point higher than 1992 and well below the

86.8% peak in 1988. This year, utilization may hit only 82%—held down by the effects of recent capacity additions in the Middle East and Asia.

NEW CUSTOMERS. That modest tightening of capacity won't leave much room for prices to rise. Analysts say that toward yearend polyvinyl chloride—the PVC in plastic pipes—may rise one cent a pound, to 31¢. They expect ethylene, a basic chemical used to produce other chemicals, to stay flat at about

20¢ until 1995. That's partly because the growth of trade in chemicals is eroding price differentials around the world. "Global pricing is more apparent than ever before," says Richard A. Stuckey, DuPont's chief economist. Indeed, as hungry foreign producers offered bargain prices to U.S. buyers, the U.S. trade surplus in chemicals shrank to \$15.6 billion last year, from a 1991 high of \$19.2 billion. This year, it may dip below \$15 billion, says CMA economist Allen J. Lenz.

Increased trade also has a bright side for U.S. producers, however: They have picked up new customers in Latin America, Hong Kong, and even Japan. And over time, the North American Free Trade Agreement should boost chemical sales to Mexico. By the end of the decade, the CMA figures, those exports should rise by \$1.2 billion, to \$8 billion. Mexico already imports \$3.5 billion worth of U.S. chemicals, making it the U.S. industry's No. 3 market, behind Canada and Japan. The General Agreement on Tariffs & Trade should gradually boost U.S. exports, too—though the 1994 impact will likely be small.

Gradual improvement may be all the industry can expect this year. But after the scorching chemical makers took in 1993, any gain will be welcome. The outlook, says Marvin O. Schlanger, president of Arco Chemical Americas, "could be a hell of a lot worse."

By Joseph Weber in Philadelphia

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PLUMPER PROFITS AHEAD

Vigorous cost-cutting and global expansion should beef up results

PROGNOSIS '94

FOOD & TOBACCO

OUTPUT

BILLIONS OF '93 DOLLARS

'93 AND '94
ESTIMATES



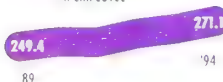
EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS
PER EMPLOYEE



DATA: DRI/MCGRAWHILL

POSITIVES

► Consumers worldwide want high-quality branded foods.

► Vigorous cost-cutting, manufacturing efficiencies, and overseas expansion could beef up the bottom line.

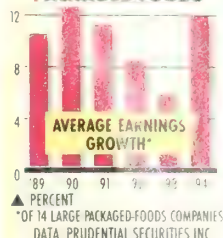
NEGATIVES

► Value-conscious consumers will resist price increases and give store brands an edge

► Sluggish sales in some overseas markets may hinder expansion.

SPOTLIGHT

PACKAGED FOODS



The \$275 billion food-processing industry faces more belt-tightening this year. Although economic signposts point to a further upswing in the U.S. and the start of a recovery in Europe, "I can't feel it or see it yet," says David W. Johnson, chairman of Campbell Soup Co. "I don't think consumer confidence is back. And that doesn't augur well for a resurgence in 1994."

The worst is probably over, however. For the past four years, profit gains have eroded steadily, dropping to 5.7% for the top 14 packaged-food makers in 1993—the smallest uptick in a decade, says John M. McMillin, a Prudential Securities Inc. analyst. Vigorous cost-cutting and international expansion—plus easy comparisons to last year's weak results—will push up 1994 earnings by 11.8%, McMillin figures. That would still put processors far below the projected 18% profit growth for the Standard & Poor's 400, though, so food stocks will likely continue trading at a 10% to 15% discount to the index.

To rejuvenate income and stock prices, some companies are taking dramatic steps. On Nov. 24, Philip Morris Cos. said it will chop 14,000 workers, or 8% of its work force, and shut 40 plants. Troubles in the tobacco business prompted the move, but the ax will fall heaviest on the company's much larger Kraft General Foods unit.

STOCKPILING. Meanwhile, lackluster Ralston Purina Co. is breaking itself apart: Last summer, it spun off Continental Baking Co., maker of Hostess snacks and Wonder bread. A similar deal for its cereal and baby-food businesses is in the works. After an abortive attempt last year, RJR Nabisco Inc. may try again to split off its food group. Before such a deal, RJR will cut 6,000 jobs, 9.5% of its total.

Even after years of such restructurings, the industry is loaded with fat. So based on a joint study, manufacturers and retailers are preparing a drive to slash \$30 billion in costs over the next five years from the process of making, distributing, and selling food. Many grocers and wholesalers now stockpile goods when food makers offer discounts, leading to inefficient peaks and valleys in production. Through a program called Efficient Customer Response, in which 11 industry trade groups are participating, the processors aim to smooth out orders and, therefore, manufacturing cycles. A pioneer in such efforts, Quaker Oats Co. now pays promotional dollars regularly instead of largely at the end of each quarter. The payoff: Its operating margins widened to 12.7% last year, from 10.3% in 1990.



To capitalize on more efficient operations, food makers are working to drum up growth. Many are doing acquisitions, although major deals have been scarce. Unilever added to its frozen-food unit when it snapped up Kraft's ice cream business last fall. Meanwhile, Dean Foods Co. is extending its presence in vegetables by picking up Kraft's Birds Eye line. And Nabisco supplemented its Oreo cookies by buying the Stella D'Oro brand. This year, analysts expect Kraft to sell all or part of its low-profit food-service operations.

The companies also are using deals to expand internationally. Spurred by the unifying North American market, Pillsbury Co., a division of Britain's Grand Metropolitan PLC, has acquired 49% of a Mexican food distributor. Partly through acquisition, Sara Lee Corp. has more than doubled its annual sales south of the border in 18 months, to \$350 million.

BUY THE RANCH. Other regions of the globe aren't being neglected. CPC International Inc., which already made 60% of its sales outside the U.S., bought a German potato company last August. "All of us are scrambling for growth," says CPC CEO Charles F. Shoemate, "and the big opportunities are in Europe, Eastern Europe, Latin America and Asia."

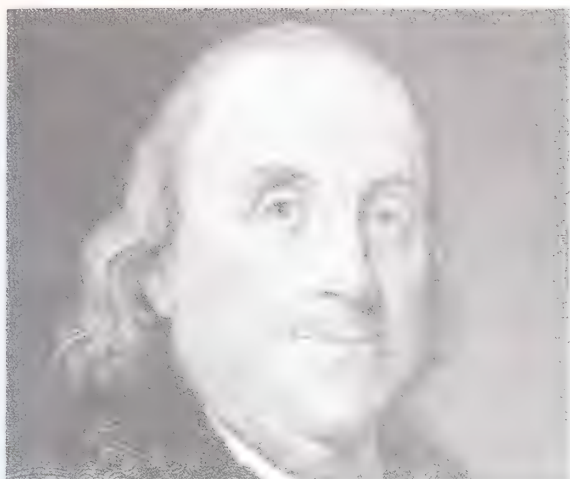
New products will remain a favorite strategy, too, since some of last year's entries have come on strong. Among them is Hershey Food Corp.'s Hugs candy, a complement to its Kisses, and variations on its best-selling chocolate bar. Campbell Soup has parlayed the popularity of Pepperidge Farm cookies and crackers into frozen garlic bread and gravy in jars. Also trying to leverage strong brands, CPC has rolled out Hellmann's Dijonnaise dressing and is testing a ranch salad dressing.

Such innovations in branded offerings should help keep store brands at bay. To that end, manufacturers are holding the line on most prices, despite somewhat higher commodity costs due to last year's floods. "The key to keeping brand strong is keeping them competitive on a price-value basis," says Quaker Oats Chairman William D. Smithburg.

Philip Morris learned that the hard way last year, when it had to slash prices on its leading Marlboro brand in an attempt to blunt the encroachment of cheaper cigarettes. Although food makers won't take such draconian steps, they'll have to cook up the right mix of quality and price to prosper this year.

By Lois Therrien in Chicago

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HIGH TECHNOLOGY

COMPUTERS

Power PCs mean the end of the end for "big iron"

Page 81

SOFTWARE

"Suites" are fueling sales—and price wars

Page 82

SEMICONDUCTORS

Chipmakers, though jittery, may party on

Page 83

TELECOMMUNICATIONS

The mating rites of phone and cable-TV carriers

Page 84

PHARMACEUTICALS

A big dose of uncertainty from health reform

Page 85



THE END OF THE END FOR 'BIG IRON'

Powerful PC microprocessors will be the tail that wags the industry

Louis V. Gerstner Jr. has a tough balancing act ahead. The IBM chief executive has to turn around a company that still gets some 30% of its sales from high-margin mainframes and minicomputers even as it introduces a new generation of low-margin personal computers that can do many of the same tasks as the bigger machines. Big iron, as the industry likes to refer to mainframes and minis, has been sinking in popularity for a decade, and in 1994 it will officially become a niche.

Just look at the trend lines. Sales of PCs and workstations will reach \$42.8 billion in 1994, or 3.4% of all U.S. computer hardware sales, according to market researcher International Data Corp. That's up from 56.6% in 1993, and 50.2% five years ago. Mainframe and minicomputer sales, at \$23.1 billion, will constitute less than 20% of the total, while the remaining \$7.4 billion will be spent on data-communications equipment.

Even worse for IBM, Digital Equipment, Unisys, and other big-iron makers, the five-year compound change for minicomputer and mainframe sales as of 1994 will be a negative 1.8%, compared with a growth of 7.5% for PCs and workstations, and a 4.3% growth for the industry overall, estimates IDC. "It's the end of the end for mainframes," says George F. Colony, president of market researcher Forrester Research Inc.

IDENTITY CRISIS? That is one reason why Wall Street thinks IBM lost 20¢ a share in 1993 and will post a profit of only \$2 to \$2.50 in 1994. Granted, that's a lot better than 1992's loss of 12.03. But compare IBM to PC maker Compaq Computer Corp. Analysts say Compaq earned about \$5.20 a share in 1993 and should post a profit of \$6.03 in 1994.

PCs will even begin to take on the characteristics of big iron in 1994, thanks to a group of powerful microprocessors now hitting the market. IBM's own PowerPC chip, built in partnership with Motorola and Apple Computer, along with DEC's Alpha chip and Intel's Pentium, are an order of magnitude faster than the Intel 80486 chip that now powers the most popular PCs. "PCs based on the powerful new microprocessors, connected over networks, will become the new mainframes," says Kenneth A. McPherson, president of consultancy Redbrook Technologies Research Ltd. in Framingham, Mass.

The new chips also will make the demarcation between workstations and PCs even blurrier.

IDC analyst Nancy Battey says the "personal workstation" will emerge in 1994, aimed at business customers who do high-volume number crunching. "We expect this to be the big growth area in workstations," she says. This means that Sun Microsystems Inc., Hewlett-Packard Co., and other traditional workstation makers who have long sold primarily to engineers will have to go head-to-head with PC companies. Sun is already feeling pressure—analysts say it earned \$1.49 a share in 1993, down 13%, but should recover to \$2.16 in 1994. Overall, workstation sales should grow from \$9.9 billion worldwide in 1993 to \$11 billion this year, according to market researcher Dataquest Inc.



MOMENTUM WORRIES. There is still a big question concerning just when this year the newest PCs will start selling, since so many 486 PCs were purchased in 1993. Lower prices, powerful new software, and pent-up demand all drove sales far higher last year than anyone expected—a total of 14.8 million units in the U.S., up 25.8% from 1992, says IDC. Indeed, the biggest headache in 1993 for both manufacturers and customers was frustratingly big backlogs.

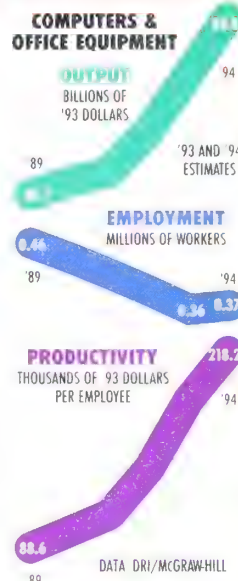
Now, with backlogs whittled down, IDC expects PC sales to grow around 10% in 1994, to 16.28 million units. "The challenge is going to be getting companies to replace 486s that they just bought with the Pentium," says IDC analyst Richard Zwetckhenbaum.

On the home front, however, PCs will continue to sell like hotcakes. The home market exploded in 1993 and is expected to keep roaring in 1994. The home PC of choice is a multimedia system equipped with a CD-ROM player, sound card, and video. Link Resources Corp. estimates that one million multimedia PCs will be sold for home use in 1994, vs. 718,000 in 1993. And 45% of PCs shipped in the U.S. will be equipped with a CD-ROM player, up from 39% in 1993.

With all this attention on new chips and new markets for PCs, there is finally something for the industry to talk about besides price wars. As Dell Computer Corp.'s CEO, Michael S. Dell, puts it: "Last year, I had the feeling the industry had run out of innovation." But with multimedia, digital video, and the Pentium chip, "there's a lot more excitement. We're entering a whole new wave of innovation and growth." Now if only Lou Gerstner could get the same kind of buzz going over all that aging big iron.

By Catherine Arnst in New York

PROGNOSIS '94



POSITIVES

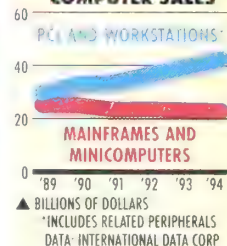
- ▶ PC sales will continue to boom, especially for machines used at home.
- ▶ A new generation of microprocessors will turn desktop machines into the equivalent of mainframes, rekindling growth in business demand.

NEGATIVES

- ▶ Mainframe sales will keep declining.
- ▶ Next-generation PC sales will be slow at first, as companies absorb the 486-based systems they bought in 1993.

SPOTLIGHT

COMPUTER SALES



SOFTWARE WILL PLAY HARDBALL AGAIN

Low-priced software "suites" will be pumping up the PC price wars

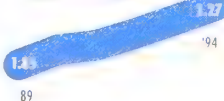
PROGNOSIS '94

SOFTWARE & DATA PROCESSING



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

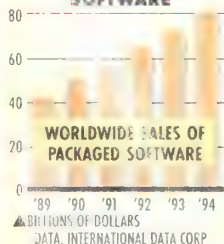
- ▶ Strong PC sales may generate double-digit growth in unit sales of PC software.
- ▶ New PC operating systems could prompt customers to buy new application programs.

NEGATIVES

- ▶ PC software price wars will hurt revenues and margins.
- ▶ Software suites will help move an even bigger share of industry revenues to two players, Microsoft and Lotus.

SPOTLIGHT

SOFTWARE



The software market just keeps growing, and this year will be no exception. Worldwide sales of packaged software will climb 12.1%, to \$80.3 billion, topping 1993's 11.5% increase, predicts International Data Corp. Those gains should hold, too, for U.S. producers, which own 75% of the world market. But the story this year will be the battle in personal computer software. Competition that was merely torrid in 1993 will become cutthroat in 1994.

Last year was rough enough, as previously uninhibited revenue growth of about 30% a year was slowed by price wars. Microsoft, Lotus Development, Borland International, and others began bundling five or six programs—including spreadsheet, graphics, and word-processing software—into "suites." These packages sell for about \$300, the price of one stand-alone product a couple of years ago. As the effect of that rippled through the industry's pricing structure, dollar sales of PC software rose an estimated 13%, to 16% in 1993, about half the gain in unit volume.

This year could be worse. Market researcher Dataquest Inc. expects worldwide PC software revenues to grow 8%, to \$8.95 billion, as unit shipments continue their double-digit rise. Most of the new money will end up at Microsoft and Lotus: Microsoft Corp. alone collects about half of all PC software sales. Analysts predict that its revenues will rise 20%, to \$4.9 billion in calendar 1994. Lotus Development Corp. should grow 14%, to \$1.1 billion. But with prices under pressure, just about every supplier will cut costs to prop up margins. Last year, Software Publishing Corp. laid off 140 employees, 21% of its work force. Even Microsoft will trim some projects, although its overall employment should grow. **ULTRAFAST.** Some wild cards could give PC software an unexpected boost. Plunging hardware prices will move millions of computers, many with CD-ROM drives, into homes this year. Microsoft, WordPerfect, and others have new products for this market, which could grow about 15% in 1994, to more than \$3 billion, according to Link Resources Corp. "The home is probably one of the largest growth sectors," says Steven A. Ballmer, executive vice-president of Microsoft.

In 1994, several new PC operating systems will also battle for market share. Some will compete for spots on ultrafast new PCs built around reduced-instruction set (RISC) microprocessors from IBM, Apple, DEC, and others. IBM's OS/2,

several versions of Unix, and the Apple Macintosh operating system are among the contenders. Microsoft's high-end Windows NT for RISC machines, which got a sluggish start in 1993, will be revised by midyear into a faster, slimmer version. And a new rendition of Microsoft's ubiquitous Windows program for regular PCs, due in the second half, "will be the biggest product introduction in the industry to date," predicts Symantec Corp. President Gordon E. Eubanks Jr.

As corporate networks proliferate, revenues of Novell Inc., the leader in network operating systems, are expected to grow 27% this year, passing \$1.4 billion. And Lotus has a hit with Note, which makes it easier to share work over a network. "Computers now help people collaborate instead of just counting numbers," says John Landry, a senior vice-president at Lotus.

NETWORK NEWS. The spread of networks is also pumping up demand for client-server software, which stores data and programs on the network "servers" that feed desktop PC "clients." Oracle, Informix Software, and Sybase, which sell server software, should all grow at least 30% this year, analysts say. Small companies with strong client-server products, such as Peoplesoft, Powersoft, and Gupta, are surging, too.

By contrast, International Data figures sales of applications software for IBM mainframes will grow just 6% this year, to \$4.7 billion, while those for Digital Equipment Corp.'s VAX minis will rise 9%, to \$2.6 billion. There's less price competition in these markets, so dollar sales will closely track unit sales. That may be the only good news for mini and mainframe software producers, such as Dun & Bradstreet Software and Walker Interactive Systems, which are struggling to make the shift to network software. Other mainframe software companies, including Computer Associates International Inc. and IBM, are making the transition more easily.

Across the industry, companies that can't adapt will be acquired or disappear. "There will be consolidation in 1994," predicts Dataquest analyst Paul V. Cabbage. Analysts are keeping an eye on companies whose profits have been depressed by the price wars, including Aldus, Borland, Software Publishing, and WordPerfect in PC software—and Dun & Bradstreet and Walker in mini and mainframe products. But for those that change with the market, 1994 should be another robust year.

By Richard Brandt in San Francisco





"I
wasn't
sure
I
wanted
a
second
car."

"Now
I
know
I
don't."



[Another car? What can another car offer, except what your first car already has? Besides a different color?

[The all-new 1994 Sonoma offers that. And everything else. In a truck, not a car.

[On the interior, Sonoma crosses into the domain of the automobile – roomy, quiet, comfortable.

Outside, its new look violates the conventions of truck aesthetics, recalling muscle cars of the late 1960s – via the year 2000. Yet it carries with it GMC Truck's legacy of truck strength and indispensable utility.

[With three available suspension packages for 2WD, four for 4WD,



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ma can give you anything from
n-like smoothness on-road to
n-chomping toughness off-road.
r way, its independent front
ension also insulates you from
hocks of the road.
ma's frame is a boxed ladder-
— strong, stiff, torsion-resistant.
naturally, traditional truck

strengths are still very much in
evidence. Power. Towing. Hauling.
Cargo capacity.

[The base power offering is a new
2.2-liter powerplant. Then the
stampede: two available 4.3-liter
V6s, including the Enhanced V6.
With 190 HP and 260 lb-ft of torque,
it's a beast that can make Sonoma

the most powerful pickup in its class.

[And to complete the picture, rear-
wheel anti-lock braking is standard
with the 2.2-liter engine, four-wheel
ABS with the 4.3.

[So if you're not sure you need a
second car, driving a new Sonoma
will convince you: You don't. You
need a truck.

A black and white photograph showing the interior of a GMC Sonoma truck. The view is from the driver's side looking towards the passenger seat. The seats have a perforated pattern. The center console has a gear shift and a handbrake. The dashboard and steering wheel are partially visible on the left.

"This
is
what
convinced
me."

When you drive the new Sonoma, there's more shoulder and hip room than its previous incarnation. From the outside, less wind, engine and chassis noise. And overall, an acute attention

to fit and finish – acute attention to your comfort.

[You may, indeed, need two vehicles. And you probably don't want to sacrifice comfort for utility. So get the truck that

offers it all. The new Sonoma. To learn more, call 1-800-GMC-TRUCK.

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THE PARTY'S NOT OVER YET

Growth may slow to 14%, but chipmakers' profits will keep climbing

It doesn't get much better than this. In their best performance since 1988, the world's chipmakers finished 1993 with a 29% jump in sales, to \$77 billion. U.S. companies grew 35%, earning nearly every producer record profits—and increasing the market lead in total chip sales America grabbed back from Japan in 1992. So why do chipmakers seem a bit jittery going into 1994?

Because, like revelers at a New Year's Eve party, they figure this much fun can't last forever in their treacherous, fast-paced markets. They do have a few things to worry about: The monthly book-to-bill ratio, which compares new orders with current shipments, has declined slightly since July. Some chipmakers report slowing orders on commodity

products such as microcontrollers, used in a wide variety of products. Sales of personal computers, the driver for much of the industry's growth, may be braking a bit, and defense-industry purchases are down. The Semiconductor Industry Assn. forecasts that worldwide and U.S. growth in chip sales will slow to 14% this year. "People are nervous," says Craig R. Barrett, chief operating officer of Intel Corp. The bottom line, though, is that chip earnings are holding up for now—and 14% is 14%. So, adds Barrett, "things still feel good."

DRAM JAM. Indeed, large segments of the market should do very well. Even if PC revenue growth slows, unit sales should be much higher. That's what matters for chipmakers. Sales of the microprocessors used to power IBM-style PCs helped Intel grow an expected 50% in 1993, to \$8.8 billion—padding its lead as the world's No. 1 producer. Analysts say it may sell 6 million next-generation Pentium chips in 1994, up from 400,000 in 1993.

The older 486 will remain the star, though. Analysts expect 44 million to be shipped this year, up 40% from 1993. Intel, its creator, won't hog the profits: Barring setbacks in court, 486 clones from Advanced Micro Devices Inc. and Cyrix Corp. will make their first major inroads. And fast RISC (reduced instruction-set computing) microprocessors, such as the PowerPC from a Motorola-IBM-Apple joint venture, could nibble at Intel's near-monopoly in PCs, with sales of perhaps 1 million in 1994. In short, analysts say competition may help trim Intel's plump 63% gross profit margin to 59% in 1994, even as world microprocessor sales climb 34%, to \$11.6 billion.

The good times will also roll for memory chips—especially the ubiquitous DRAMs (dynamic

random-access memories), whose sales may grow 19% in 1994, to \$15.7 billion. Pentium PCs with memory-hogging Windows programs will use up to four times as much memory as today's machines. Japanese chipmakers own most of the market—and robust DRAM sales saved them from major retrenchment in 1993, when consumer-electronics sales nosedived. The few U.S. memory makers will benefit, too. Analysts expect sales at Micron Technology Inc. in Boise to grow more than 60% for the second year in a row—to \$1.3 billion for the year ending in August. That may happen even though competition from Korean companies such as Samsung Group may flatten prices.



Another hot area will be flash memory chips. Because they retain data even when the power is turned off, they're popular for portable products such as notebook PCs. Sales will double again this year, to \$1.2 billion, predicts market researcher Integrated Circuit Engineering Corp. Intel and Advanced Micro Devices dominate, but the battle will grow as major Japanese companies such as Toshiba and NEC jump in.

Changes in the PC industry will create new opportunities as well. Fancy graphics, video, and sound require multimedia chips from the likes of Cirrus Logic Inc. Analysts say its sales may grow 21%, to \$430 million, in the fiscal year that ends in March. Computer networking and new wireless services for personal digital assistants, such as Apple's Newton, will drive demand for communications chips—good news for Motorola, Zilog, and National Semiconductor.

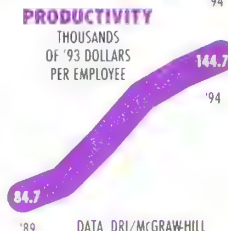
SMOOTHER RIDE? Overall, "the biggest challenge will be just keeping up with the business," says G. Dan Hutcheson, president of San Jose market researcher VLSI Research Inc. Chipmakers are expected to spend \$18.4 billion on new plants this year, up 27% from 1993. So the \$11.9 billion chipmaking-equipment industry could grow 29% in 1994. Hutcheson says U.S. chipmakers will outspend the Japanese again—\$9.8 billion to \$3.6 billion.

Even if growth slows, profits aren't expected to plunge. Chipmakers have so far resisted over-expansion and have kept staffs and inventories lean. Some analysts even suggest that for U.S. chipmakers, at least, the industry's notorious boom-and-bust cycles are evening out. Maybe, maybe not. But this year, at least, chipmakers will party on.

By Robert D. Hof in San Francisco

PROGNOSIS '94

SEMICONDUCTORS



POSITIVES

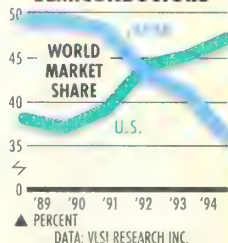
- ▶ New personal computer models use more advanced and expensive chips.
- ▶ Chipmakers' lean operations and high factory utilization should keep profits up.

NEGATIVES

- ▶ Orders for commodity chips may weaken, cutting industry sales growth to 14% from last year's 29%.
- ▶ Hard times in Japan and Europe will depress overall growth.

SPOTLIGHT

SEMICONDUCTORS

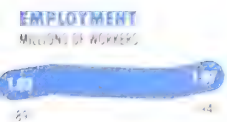


CLASH OF THE TELECOM TITANS

Phone companies are grabbing cable-TV partners, thinking mobile, and plotting war

PROGNOSIS '94

TELECOMMUNICATIONS SERVICES



DATA: DRI MACROMARK

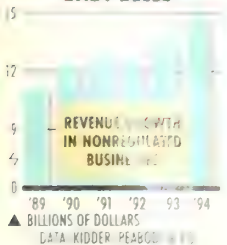
POSITIVES

- A stronger economy means more phone calls.
- Cable-TV deals, licensing for new wireless services, and heavy investment in the information infrastructure will set the stage for future growth.

NEGATIVES

- Competition and discount plans could cut long-distance profits.
- Competition from cable-TV and new local phone companies will threaten the Baby Bells.

SPOTLIGHT BABY BELLS



Not since the Bell System breakup a decade ago has the phone industry entered a new year with such changed prospects. Gone forever are the barriers that separated phone companies and cable-TV operators. The most dramatic sign: the pending \$12 billion-plus takeover of Tele-Communications Inc., the nation's largest cable company, by Bell Atlantic Corp. That megadeal was just one of the phone-cable alliances announced in 1993. U S West invested \$2.5 billion in Time Warner, and BellSouth and NYNEX joined opposite sides of the Paramount Communications takeover battle by buying stakes in cable-company bidders.

There's every sign that the mating game will continue during what, for phone companies, promises to be a prosperous 1994. Most of them are looking for at least one cable partner, if only for defensive reasons. The Baby Bells, GTE Corp., and other carriers have figured out that cable operators lust after their business: If the cable companies upgrade their systems to carry voice as well as video—something that already is in the works—there's "a real threat that they could take phone market share," says Daniel P. Reingold, an analyst at Merrill Lynch & Co. Rather than let the cable jockeys poach their customers, the phone giants figure they'll buy into cable operators and do some poaching themselves—on each other.

ON DEMAND. At the same time, local phone companies want to offer video service in competition with cable operators. The resulting showdown could be even bloodier than the long-distance war set off by the 1984 Bell System breakup. This head-to-head competition should bring lower rates and better service for both cable and local-phone services. But that's really just the start. Beginning this year, the phone industry and its cable partners plan to launch multibillion-dollar investments in technology that will make possible services such as movies-on-demand, education via interactive video, and more sophisticated video shopping. Even before these investments are included, total U.S. spending on telecommunications equipment should grow almost 6%, to \$24.5 billion in 1994, predicts Northern Business Information (NBI), a unit of BUSINESS WEEK publisher McGraw-Hill Inc.

As if the cable-phone mania weren't enough, there's another major investment boom approaching in the phone industry. The Federal Communications Commission set off the scramble

last September, when it announced the rules for licensing the airwaves for new pocket phone systems called personal communications service (PCS). The FCC's auction of PCS licenses, set for May, is expected to attract up to \$10 billion in bids from the Baby Bells, cable operators, long distance providers, and others. Meanwhile, today's cellular service should continue to boom. NBI predicts that cellular revenues will climb 17% this year, to \$12.4 billion.

WIRELESS WORLD. Old-fashioned wired phone services shouldn't fare badly, either, thanks to faster-growing economy. Long-distance revenue at American Telephone & Telegraph, MCI, Sprint, and others should grow nearly 6% this year, to \$69 billion, compared with a 5% rise in 1993, figures NBI. Local phone-service revenues, which aren't as affected by the economy, should rise 3% to \$98 billion, NBI predicts.

The lure of pervasive wireless communication has already prompted one huge deal in that business: AT&T's agreement last year to buy McCaw Cellular Communications Inc. for \$12.6 billion. That purchase should help boost AT&T's revenue to about \$70 billion in 1994, up almost 5%, while its profits should rise 18%, to \$5 billion, predicts Merrill Lynch's Reingold. Profits at MCI, meanwhile, should jump 33%, to \$981 million, in part because of the interest it will earn on the \$4.3 billion investment attracted from British Telecommunications PLC last year. (Analysts figure that MCI eventually will invest the cash in wireless services or other ventures.) Reingold says Sprint's earnings should climb 16%, to \$790 million.

The cable deals and wireless frenzy have prompted another area of intense activity: Government regulators and lawmakers finally are being forced to address the nation's outmoded communications policies. This year, there's likely to be wholesale rewriting of the laws and court ruling that have limited the Baby Bells' participation in video services, long distance, and equipment manufacturing.

So the pace of activity in the telecommunications industry will only pick up. There may be more megadeals in the wings. And phone operators and their cable partners will start to ramp up their huge rebuilding programs. If 1993 was the year the phone industry captured headlines, this may be the year it starts to make good on those much-hyped plans.

By Bart Ziegler in New York



A BIG DOSE OF UNCERTAINTY

An industry plagued by high costs faces health-care reform

Health-care reform, the sword hanging over drugmakers this year, will further unsettle a business already reeling from market pressures. Largely because of growth in managed-care health plans, analysts say, the 10 largest U.S. drug companies will be lucky to earn \$12.7 billion, up 4%. Sales may rise just 3.5%, to \$44.7 billion. To even perform this well, drugmakers will have to do deals with rivals and cut staffing and other costs. That's possible because most of these companies are still really fat," says Neil G. MacAllister, a Booz Allen & Hamilton Inc. consultant.

By limiting physicians' choices of medicines, managed-care plans have kept drug price hikes at or below inflation the past two years—and will do so again in 1994. The new plans also change the way drugmakers sell. The companies have traditionally used huge sales staffs to call on the nation's 653,000 doctors, but they're refocusing these efforts on a few thousand managed-care buyers. "Within a year or 18 months, you're going to see wholesale reductions in field forces," says MacAllister. Such cuts should eventually fatten the bottom line: Sales and marketing expenses now consume 30% of drug revenues.

In the meantime, drugmakers see salvation in diversification and higher unit volume. Last year, Merck & Co. paid \$6 billion for mail-order drug distributor Medco Containment Services Inc., which handles 95 million prescriptions a year. Medco should boost Merck's sales 37% in 1994, to \$15 billion, though costs of the acquisition may limit Merck's earnings to \$3 billion, up 0.4%. Alarmed by Merck-Medco, such rivals as Pfizer Inc. may set up joint ventures with companies that manage corporate drug plans, such as the Diversified Pharmaceutical Services unit of United Healthcare Corp. or the PCS division of McKesson Corp. "There will likely be other strategic alliances or joint ventures, maybe with insurance companies," adds Joseph P. Riccardo, a Bear, Stearns & Co. analyst.

R&D DROUGHT. Traditionally sacrosanct research and development spending won't escape the budget-cutter's knife this year. Warner-Lambert Co. is expected to trim 60 research jobs and cut R&D by \$10 million from 1993's \$475 million. Overall, the industry may boost R&D as little as 4%, to about \$13.1 billion, vs. last year's 13.5% increase, and some executives say health-care reform could curtail spending further. "We cannot shield R&D

while looking elsewhere for savings," says Merck Senior Vice-President Judy C. Lewent.

Striking the right balance will be the trick. A runup in R&D spending the past decade has produced relatively few new blockbuster compounds. Perhaps 25 drugs will be approved in 1994, about the same as in 1993, but only a handful are potential big sellers. The stronger the focus on costs, the greater the danger that companies will be too risk-averse, says George M. Milne, president of central research at Pfizer Inc., which will boost R&D 15% this year. Milne fears, for instance, that companies might increasingly pursue symptom-easing drugs instead of cures.



Still, the industry is hungry for breakthroughs. Patents expired on 42 major drugs the past two years, and 16 more will lose protection this year, according to Boston Consulting Group Inc. Smith-Kline Beecham PLC's \$1 billion ulcer-fighter Tagamet will come off patent in May, so its \$600 million in U.S. sales could shrink to \$500 million this year and \$300 million in 1995.

CLONING. Such expirations are brightening prospects for the \$9 billion generics industry. With managed-care plans on the bandwagon, analyst Mariola B. Haggard of Salomon Brothers Inc. says more than 40% of U.S. prescriptions will be written for cheaper generic substitutes in 1994, up from 36% last year. That will benefit such generic houses as Mylan Laboratories Inc., which is planning a clone of Tagamet for half the price.

Generics companies face competition, however. Major drugmakers are starting generic arms, as Merck has, or buying them, as Marion Merrell Dow Inc. has done with Rugby-Darby Group of Cos. Gross margins for generics are 50% to 60%, vs. 90% to 95% for branded products—but Haggard says they give drugmakers full product lines.

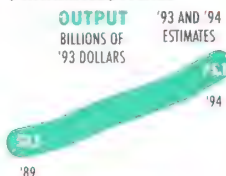
How far the industry will retrench depends, in part, on health-care reform. Plans to provide medicines through Medicare and to cover the 38 million uninsured won't boost sales much until 1995 or later, and even then an expected 10% or so growth in unit volume won't offset the proposed 17% rebates to the government on such business.

In short, 1994 will be a year of transition and uncertainty for drugmakers. But one thing is clear: They face the same challenge that has confronted other industries in recent years—the need to reinvent themselves.

By Joseph Weber in Philadelphia

PROGNOSIS '94

PHARMACEUTICALS



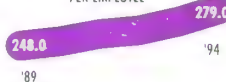
EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

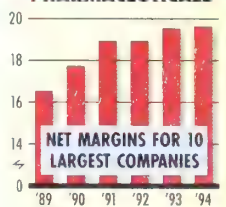
- Costs should fall as sales rise modestly.
- Uncertainties clouding the industry should lift as Washington clarifies plans for health-care reform.

NEGATIVES

- Pressure on prices will continue to build.
- Scarcity of big new products will dampen growth.
- R&D spending growth will slow, especially if limits on new-drug pricing become law.

SPOTLIGHT

PHARMACEUTICALS



▲ PERCENT
DATA: PAINEWEBBER INC., INDUSTRY REPORTS

NATURAL RESOURCES

ENERGY

Big Oil should see more than just a trickle of black ink—but no gushers

Page 87

AGRICULTURE

Profits may be knee-high by July—and again approach record heights

Page 88

FOREST PRODUCTS

The logging ban is splintering the industry into big winners and big losers

Page 90



A TRICKLE, NOT A GUSHER

Average oil prices will be lower—but high enough for black ink

After a half-decade of painful cost-cutting, oil companies were hoping that 1994 would be the second year of a gradual recovery. But crashing prices have caused them to change their view. Now, they're simply aiming to hold their ground. Most analysts look for flat earnings for the broad industry, reflecting sluggish demand, high environmental costs, and the lowest crude prices in five years—down some 5%, to about \$14 a barrel, since OPEC failed to curb production at a late November meeting.

Oil probably won't stay that low. The most common view: Average crude price for 1994 will be around \$17.75 a barrel, down from \$18.52 last year but high enough to keep the industry in the black, says Oppenheimer Securities analyst Paul Ting. Seasonal winter demand should cut inventories at U.S. ports, and the improving economies of the U.S., Britain, and the Far East should sop up production. Most important, cash-starved OPEC members may try again early this year to cut production. What [OPEC] is doing now is illogical," says Mobil Chief Executive Allen E. Murray. "These countries are giving away \$100 million a day in revenue rather than give up 2% to 3% in production."

Oil traders can still find reasons to be bearish, of course. Iraq—once OPEC's No. 2 producer—is trying to get its U.N. embargo lifted. And the cartel is under pressure to produce as non-members, notably Britain and Norway, pump away. They raised North Sea output to record levels in late 1993. Still, Iraq won't be back until late in the year, if then, and analysts expect that OPEC's troubled members—even Saudi Arabia has a negative balance of payments—will eventually have to cut output.

AS PAINS. The timing will be critical. Until crude rebounds, even cleaner-burning natural gas, which provides a rising proportion of Big Oil's profits, will be dragged down. Utilities already are switching their fuel mix. New York's Long Island Lighting Co. boosted oil usage from 8% last October to 42% in November, displacing natural gas. Lawrence A. Crowley, an analyst with Rauscher Pierce Refsnes Inc., expects average prices to drop to \$2.02 per thousand cubic feet this year, vs. \$2.35 in 1993.

Small independent producers, which account for 40% of U.S. crude production, are least prepared to ride out the storm. At under \$15 a barrel, the 450,000 domestic stripper wells—which by definition yield under 10 barrels a day—become

uneconomical, says longtime wildcatter Michel T. Halbouty. The Independent Petroleum Association of America figures at least 75,000 production jobs are at risk.

The Clinton Administration is mulling tax breaks and assistance programs to boost domestic production, but "nothing's going to help us at these prices," says Robert L. Keiser, president of Dallas-based Oryx Energy Co., the largest independent, with \$1.1 billion in sales last year. Oryx has cut costs by 25% since 1991 by eliminating jobs and selling oilfields. And Triton Energy Corp. in Dallas has sold nearly all its U.S. holdings to focus on more lucrative overseas projects.

"NOT PROFITABLE." Big Oil is best positioned to cope. Although oil-field profits will slip, lower crude prices will ease margin pressure at company-owned refineries and gas stations. Plus, the majors should be able to avoid any repeat of the massive restructuring that's claimed 450,000 jobs since 1982. "Further changes are going to mostly come from changing the way we do business" rather than downsizing and asset sales, says Chevron CEO Kenneth T. Derr. For example, Chevron is tightening inventory controls and managing each oilfield independently instead of as a group to weed out inefficiencies. Many majors plan to match 1993's spending for exploration and development, with 60% of the money going overseas.

Refining will be trickier. Many refiners are spending more than 50% of their capital dollars on environmental upgrades. "At current margins, the industry is not profitable," says Roger R. Hemminghaus, CEO of Diamond Shamrock Inc. in San Antonio, which eked out a profit in 1993. He expects relief in 1995 when less efficient rivals may abandon the market rather than rejigger plants to make federally mandated reformulated gasoline.

If there's a bright spot in 1994, it's the local gas station. Many less-profitable ones have closed. In 1993, retail margins were the highest in a decade at \$6.31 a barrel, says Ting. In mid-December, they soared to \$10.72, but should average \$6 a barrel this year.

The restructuring oil companies already have done should help them prosper once prices rise again. Demand is poised to climb in the U.S. and Europe, and in the former Communist economies over time. "We're at the beginning of a new cycle of slowly increasing prices that will give us 10 years of good growth," says Triton CEO Thomas G. Finck. Just don't expect that cycle to kick off with a bang in 1994.

By Peter Burrows in Dallas

PROGNOSIS '94

ENERGY PRODUCTS
COAL, CRUDE OIL, GAS, & PETROLEUM REFINING



DATA: DRI/MCGRAW-HILL

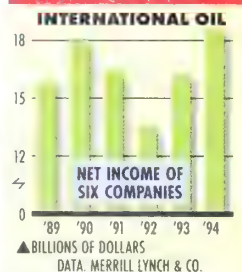
POSITIVES

- ▶ As net buyers of crude, already slimmed-down Big Oil companies can absorb low crude prices without massive layoffs and red ink
- ▶ Profits at the pump should be good.

NEGATIVES

- ▶ Iraq's possible return to the market and higher non-OPEC production could keep prices low.
- ▶ Low crude prices will depress natural gas, a key source of profits last year.

SPOTLIGHT



KNEE-HIGH BY JULY

Barring new natural disasters, farm profits should hit record levels

PROGNOSIS '94

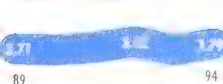
AGRICULTURE

OUTPUT
BILLIONS OF 1993
DOLLARS



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS
PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

► Shipments of rice to Japan, cotton to China, and products to Mexico may mean near-record exports.

► With grain supplies low, corn farmers will plant more—raising income \$200 million.

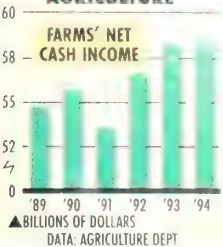
NEGATIVES

► Last-minute concessions on GATT could hurt U.S. exports of wheat, soybean meal, and animal feed

► Higher milk production could boost the cost of federal milk-price supports.

SPOTLIGHT

AGRICULTURE



▲ BILLIONS OF DOLLARS
DATA: AGRICULTURE DEPT

After a harrowing 1993, farmers may groan at the prediction that 1994 will offer much of the same—until it's clear we're talking profits, not floods or droughts. Despite hardships, farms tallied near-record income of \$59 billion in 1993, and they should earn about the same this year. If Mother Nature behaves, prices of farm commodities should rise only slightly, so food costs should edge up just 2% or so.

Considering last year's natural disasters, the farm economy is surprisingly healthy. Raging waters covered nearly 8 million acres temporarily, and crop losses reached \$5 billion. But the damage was concentrated in a relatively narrow band along the Mississippi and Missouri rivers. And even inundated farms emerged with up to 90% of normal income, the Agriculture Dept. figures, if they took full advantage of \$2.5 billion in federal flood-relief payments, crop subsidies, and a harvest-time jump in commodity prices.

Government actions should help again this year. Agriculture Secretary Mike Espy has put a one-year hold on federal efforts to idle corn and other grain plantings through the Acreage Reduction Program. He wants to rebuild grain stocks that, because of the flooding, fell to their lowest levels since the mid-1970s. If bumper harvests result as expected, prices could drop. But farmers should be better off: Corn growers alone could earn \$200 million more, Agriculture estimates. "Farmers make better money producing good crops at low prices than small crops at high prices," says Daniel W. Basse, director of research at consultant AgResource Inc. in Chicago.

Higher production could thus largely offset some short-term effects of the General Agreement on Tariffs & Trade. GATT ultimately may add \$10 billion annually to world agricultural trade. But in 1994 it could hurt U.S. wheat farmers. That's because a last-minute compromise lets European Community countries unload up to 14 million metric tons of subsidized wheat—equal to 18% of U.S. production—into the world supply. Soybean meal and animal feed exports to the EC also could suffer, analysts say.

Short-term dislocations from GATT are part of a mixed outlook for farm exports. Those should reach \$42.5 billion, close to the 1981 record of \$43.8 billion. Higher prices should push up the figure even though the volume of shipments will drop 10% due to lower exports of corn and soybeans. The lifting of barriers by Japan could lead to a \$1.1 billion increase in rice exports

next year. Cotton exports to China should rise 15%. And while exports to Mexico will remain flat at \$4 billion during the first year of NAFTA, corn shipments could triple and beef exports should rise.

All in all, the financial health of most American farmers should be strong. Their debt-to-asset ratio, which has dropped from a high of 23% during the mid-1980s farm crisis to 16% now, is expected to remain steady. That's good news for farm equipment dealers, who reversed a two-year slide by selling 56,900 tractors and 8,200 combine last year. They expect to do as well in 1994. Sales of fertilizer, after suffering a precipitous decline in recent years, should grow as planting rises.

BEEFED UP. There are still some pockets of distress in the industry. Some 15% of commercial size Midwestern farms are carrying debt-to-asset ratios above 40%. Such heavily leveraged operations could be at risk. "In time, the flood losses could [harm] a large number of farms simultaneously," says Keith A. Collins, the Agriculture Dept.'s acting Assistant Secretary for Economics.

A couple of good years would defuse that problem, however, and analysts don't expect a repeat of nature's tantrums in 1994; even the Dust Bowl years never produced back-to-back weather disasters. If they're right, corn production could reach 8.9 billion bushels, up 37% from 1993

and the soybean harvest could jump 17%.

Wheat production should remain steady with exports unchanged from 1993's 99.1 million metric tons. Cotton production should rise slightly, to 16.3 billion bales. As for meats, broiler production should rise 4% with price remaining stable; beef production and pricing should remain unchanged; and a 2% decline in hog output

should lead to slightly higher prices.

The outlook for dairies depends on how quickly farmers turn to the genetically engineered growth hormone BST, which increases milk production up to 15% per cow. The dairy herd has shrunk 3% since 1990, and BST use will probably remain relatively low this year. But any increase in milk output would put a further strain on the federal milk price-support program that is expected to pay out more than \$300 million next year even as Agriculture looks to cut crop-support outlays by 13%, to \$7.98 billion.

A lot of farmers spent last year watching rain. Nature willing, they'll make up for lost time in 1994.

By David Greising in Chicago

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The logging ban has fragmented the industry into big losers and big winners

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EXCEPT FURNITURE

OUTPUT
BILLIONS OF 1993 DOLLARS '93 AND '94 ESTIMATES



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

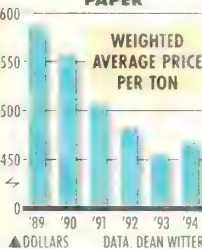
- Due to timber shortage and pickup in housing, wood prices are soaring.
- Paper prices may have hit bottom.
- GATT agreement will boost wood and paper exports, adding \$5 billion in revenue by the year 2000.

NEGATIVES

- Environmental rules will still inhibit logging in public forests.
- Overcapacity in pulp and most grades of paper will persist

SPOTLIGHT

PAPER



At a conference with President Clinton last Apr. 2, forest-products executives argued for an end to the ban on sales of timber from federal lands in the Northwest. They lost. Clinton's plan for balancing timber harvesting and the environment promises only a limited resumption in cutting, and even that proposal may get bogged down in court. "The industry is bitterly disappointed," says Richard P. Wollenberg, chairman and chief executive of Longview Fiber Co. in Longview, Wash.

For every loser, there's usually a winner, however. While companies that depend on federal logging suffer, larger competitors that control private timber are cashing in on a runup in prices caused by tighter supplies. In 1993, the average price of framing lumber rose 40%, to roughly \$395

per thousand board feet, pushing wood operating profits up 57% at the 19 biggest producers, says Dean Witter Reynolds Inc. analyst Evadna Lynn. "It's been dynamite," says consultant Bob Wulf at Pope & Talbot Inc. in Portland, Ore.

TWIN PEAKS. Feast and famine will be the pattern again this year. Lumber demand will be up substantially and production may rise only 3% because of capacity constraints and the timber ban. So Lynn expects prices to surge 15%, with wood profits jumping at least 50%. But most big wood producers also make paper, and there the outlook isn't nearly so rosy. As the slow U.S. recovery and grim economies overseas depressed demand, paper prices fell for the fourth year in a row in 1993. Operating profits for the paper segments of the 19 largest companies plummeted 40%, Lynn says. At best, industry executives predict, prices and profits may recover this year to the depressed levels of 1992 as average capacity utilization surpasses the breakeven rate of 93%. "There's no question we have seen the trough, and improvement is ahead," says John B. Fery, CEO of Boise Cascade Corp. "The question is the level of the slope."

That will depend partly on overseas markets. Over the previous five years, 60% of the industry's 9.6% production hike went for export, says American Forest & Paper Assn. economist Richard Storat. But in 1993, key Scandinavian currencies weakened against the dollar and Europe's and Japan's economies dived. After years of growth, U.S. paper exports fell about 6% in 1993, says Lynn. She expects them to grow 5% in 1994 as economies abroad rebound in the second half.



Paper's prospects should be brighter at home. The most promising grades are linerboard for corrugated boxes, coated paper for magazine and catalogs, and uncoated white office paper. Linerboard prices, which hit bottom at \$290 a ton in 1993, are expected to average \$330 to \$335 this year. Coated-paper prices may rise 1% to 2% this year, the same as last, if magazine ad page rise. That should be the case, too, for uncoated paper, where the problem is continuing capacity additions. After rising 7% last year, newsprint prices may slide because of weak consumption and inventory drawdowns.

Pulp, meanwhile, will stay in the doldrums. Just 18 months ago, the U.S. was the low-cost producer of this raw material for papermaking. But now, the currency situation favoring Scandinavia, and new capacity is planned for Indonesia and Malaysia. At \$390 a ton, prices are below production costs for many companies, and analysts think an 8% increase this month won't hold.

GOOD HABIT. Amid the gloomy news, paper makers ended 1993 on one bright

note: Recycling has finally caught on. Since 1988 the industry has invested \$7.5 billion in equipment for making recycled paper. The goal it set in 1990—to reuse 40% of all paper consumed in the U.S. by 1995—was achieved two years early. Last year, "we recovered as much paper as went to landfills," says Storat. "By the year 2000, we will recover twice as much."

No matter which products do best in 1994, some companies are readier than ever to cash in. Westvaco, Mead, Weyerhaeuser, and others have cut costs and improved production processes, so even a slight increase in prices will boost profits. Those with big timber operations, such as Louisiana-Pacific, Potlatch, and Plum Creek Timber, should benefit as housing starts rise to 1.37 million vs. 1.2 million last year.

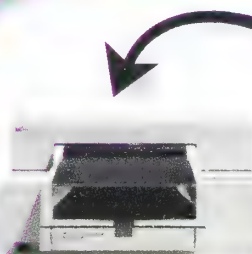
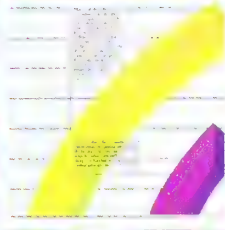
Small, independent mills in the Northwest may not be as fortunate. Clinton's plan for resuming federal timber sales won't be complete until March, and then it may be challenged. That means no federal timber sales until midyear at the earliest. Already, about one-third of the 77 Northwestern mills that were operating in 1988 have shut down, putting 32,000 employees out of work. "For the communities affected by federal timber, the outlook is dismal," says Paul Ehinger, an industry consultant in Eugene, Ore. So again this year, pain for some forest-products producers will be another company's gain.

By Dori Jones Yang in Seattle

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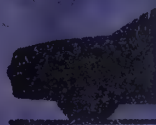
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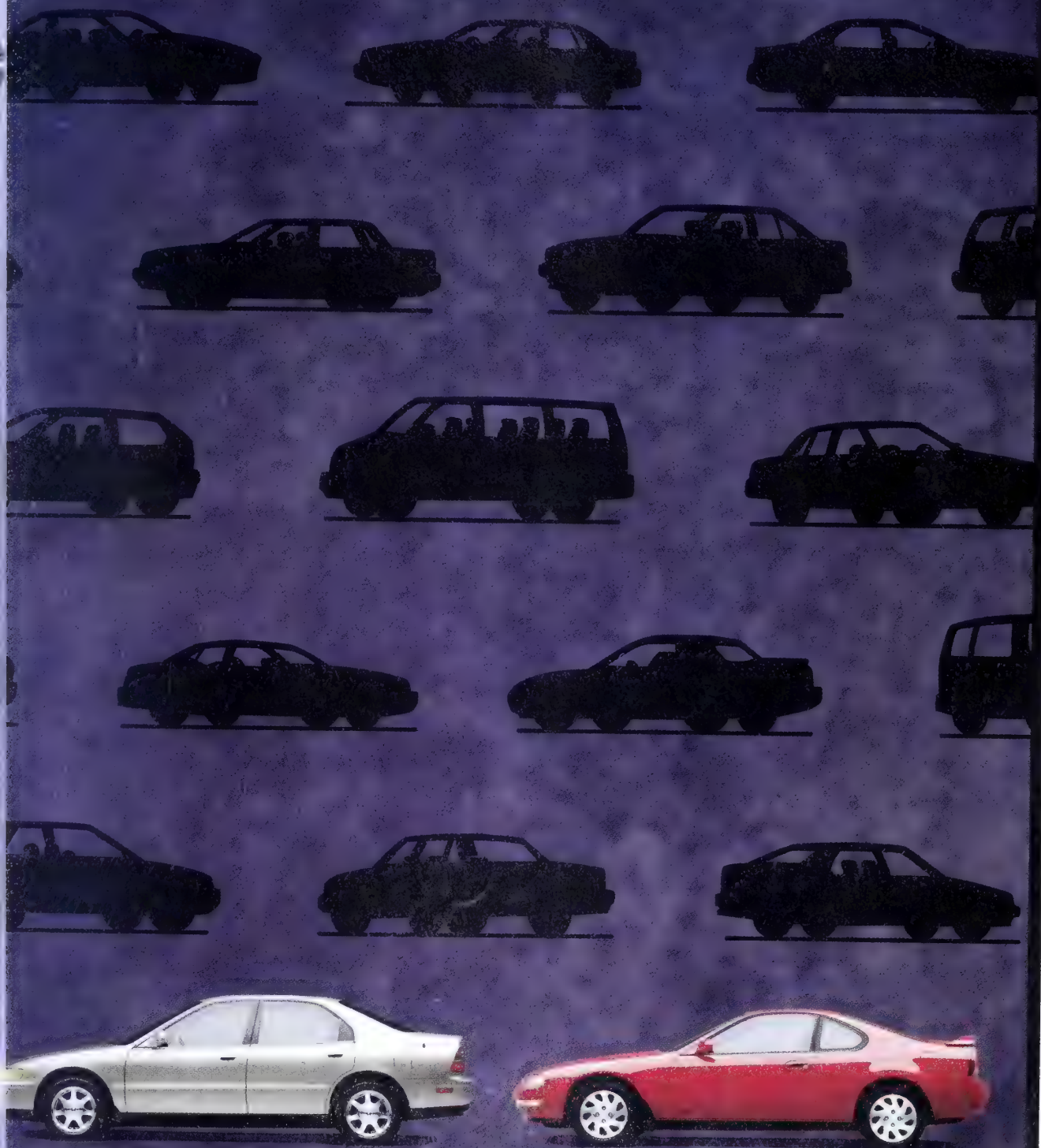


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SERVICES

RETAILING

The nimble are learning to survive the frugal '90s
Page 95

WHOLESALE

Cut out the middlemen? Not without a fight
Page 96

HEALTH CARE

Reform or not, a year to prep for radical surgery
Page 97

TRANSPORTATION

Airline profits—and more turmoil—ahead
Page 98

RESTAURANTS

Washington may turn up the heat
Page 99

UTILITIES

Bracing for deregulation and competition
Page 100

ENTERTAINMENT

Everyone is trying to splice into cable
Page 101



LEARNING TO SURVIVE THE '90S

There are two kinds of retailers these days: The quick and the dead

As retailers prepare their 1994 forecasts, they feel like shoppers at the clearance racks. Wherever they look, they find last year's fashions: frugal consumers, price pressures, modest sales growth. But with the 1990-91 lump still fresh in mind, the nation's merchants will settle for that. At least in relative terms, says David D. Glass, CEO of Wal-Mart Stores Inc., this will be "a pretty good year."

Nonauto retail sales will climb about 6.5%, vs. 5% in 1993, predicts Carl Steidtmann, chief economist at Management Horizons. And profits should be generally decent. "Retailers are coming to grips with the fact that the [high-flying] '80s are dead," says consultant Kurt Barnard. "They will adjust their inventories and become far more efficient." Few of this year's gains will come from higher prices. Disinflation "continues to blow across the landscape," says Clark A. Johnson, chief executive of Fort 1 Imports Inc.

NOT A CLUE. A few ripples of fear mar an otherwise placid outlook. Some analysts think customers could cut back once they see higher tax bills in April. And Steidtmann calls President Clinton's health-care plan "a real disaster for retailers," who might have to provide coverage for part-time workers.

All the same, there are plenty of reasons for optimism. Rising home sales and mortgage refinancings, which cut monthly payments, are boosting purchases of such items as appliances and big-screen TVs. And growth in home-based businesses is fueling sales of personal computers: EO John V. Roach expects Tandy Corp.'s sales to climb 20% in '94, after last year's 15% gain. Less pricey home goods are doing well, too. Bombay Co. in Fort Worth is chalking up double-digit same-store sales growth of its moderately priced furniture, says CEO Robert E. M. Nourse.

Apparel retailers, meanwhile, hope that fresh fashions will rejuvenate clothing sales, which Steidtmann figures rose 5% last year. In 1993, specialty chains such as The Limited and Merry-Go-Round Enterprises Inc. "couldn't figure out what the consumer wanted," says New York consultant Alan Millstein. Allen I. Questrom, CEO of Federated Department Stores Inc., attributes that to "designers focusing on the wrong customers" and ignoring the over-40 set.

Some apparel outlets have bucked the trend with unique products and better value. The Talbots women's apparel chain in Hingham, Mass.,

showed same-store sales gains of about 7% last year, growing even in depressed California. Edward L. Larsen, chief financial officer, credits the 339-store chain's classic merchandise and moderate prices. About 90% of its clothing is private-label, up from 25% five years ago, giving Talbots more control over quality and pricing.

Even once struggling giants such as J.C. Penney Co. and Sears, Roebuck & Co. are coming back in apparel, thanks to higher-quality store brands, sharper pricing, and better advertising. Penney posted overall sales gains of about 7% last year, while profits climbed 14%. At Sears, former Saks Fifth Avenue chief Arthur Martinez has widened the selection and boosted ad spending. Sears' domestic merchandise group, excluding credit cards, moved out of the red last year to earn \$250 million, estimates retail analyst Peter J. Siris of UBS Securities Inc.

The fiercer competition for consumers will continue to force out weaker players. Last year, Kmart's PACE Membership Warehouse unit agreed to sell most of its stores to Wal-Mart, and Price Co. and Costco Wholesale merged. PACE should help push Wal-Mart's sales up 29%, to \$87 billion-plus this year. Consultant Barnard figures discounters will show same-store sales gains of 6%, about on a par with 1993.

Some newer distribution channels will do a lot better than that. The \$2.5 billion home shopping industry, composed primarily of QVC Network Inc. and Home Shopping Network Inc., is expected to grow by about 20% this year. Many big-name retailers, including Penney, Saks, and Sears, already sell on TV. And cataloger Spiegel Inc. recently joined with Time Warner Inc. to launch two cable-TV shopping channels for upscale merchandise. Not everyone is joining in. For now, Federated's Questrom sees catalogs as a more convenient distribution method. Mail-order consultant Arnold L. Fishman expects catalog sales to jump 8% this year, to \$57.8 billion, after last year's 7% gain.

Retailing wasn't always this complicated. Christopher J. Probyn, director of forecasting for DRI/McGraw-Hill, notes that consumer confidence, while improving, isn't soaring, and that real disposable income growth will rise a moderate 2.7% this year. "I'm not expecting the consumer to come back in any meaningful way for the entire decade," adds analyst Siris. All the more reason now to find strategies that really work.

By Wendy Zellner in Dallas

PROGNOSIS '94

RETAILING EXCLUDES RESTAURANTS



EMPLOYMENT MILLIONS OF WORKERS



PRODUCTIVITY THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/McGRAW-HILL

POSITIVES

► Consumers will have more buying power, and a strong housing market will fuel demand for home goods.

► Slimmer inventories will mean fewer markdowns and higher profits.

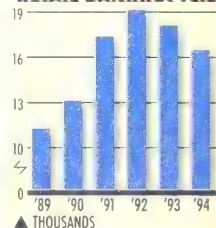
NEGATIVES

► Health-care reform could raise costs for part-time workers.

► Value-minded consumers will keep a lid on prices, and higher tax bills in April may slow spending.

SPOTLIGHT

RETAIL BANKRUPTCIES



CUT OUT THE MIDDLEMAN? NEVER

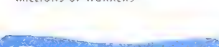
Distributors and wholesalers are learning how to make themselves indispensable

PROGNOSIS '94

WHOLESALE OUTPUT
BILLIONS OF '93 DOLLARS
'93 AND '94 ESTIMATES



EMPLOYMENT
MILLIONS OF WORKERS



PRODUCTIVITY
THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

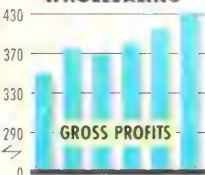
- ▶ A better economy should boost volume.
- ▶ Heavy spending on new technology in recent years will mean higher efficiency and quality.

NEGATIVES

- ▶ Middlemen won't get price increases
- ▶ There will be more competition as manufacturers rely on fewer distributors and as powerful discounters and warehouse clubs bypass middlemen.

SPOTLIGHT

WHOLESALE



DATA: NATIONAL ASSN. OF WHOLESALE DISTRIBUTORS

Squeezed between cost-cutting manufacturers and customers who refuse to pay higher prices, the 300,000 wholesalers and distributors in the U.S. have had an uncomfortable three years. They've been subjected to pressures as varied as the growth of mass-market discounters, who aim to bypass distributors, and the flinty eyes of the health-care-cost police.

To survive, much less prosper, distributors have been redefining and expanding what they do—while furiously gobbling up competitors. This year, they may get their reward at last. As the U.S. recovery broadens and the North American Free Trade Agreement spurs sales into Mexico and Canada, industry revenue should rise 5.9%, a touch more than in 1993, and profits should be up nearly 6%, predicts the National Association of Wholesaler-Distributors. Gross profit margins will resemble 1993's 21.1%. "It's getting a lot more competitive, but there's still a lot of opportunity out there," says Joel D. Spungin, chairman of United Stationers Inc., the largest distributor of office supplies.

Like many leading distributors, United's 34% sales gain in fiscal 1993, to \$1.4 billion, came largely from a big acquisition, of Stationers Distributing Co. Yet its future growth may lie in new products and services that "add value" for customers, in wholesaling jargon. Spungin says such discounters as Office Depot, Office Max, and Staples will grab up to 35% of the market in a few years, triple their current share. To help independent dealers fight back, he sells them everything from furniture and computers to paper clips—delivered overnight. Yet he also plays to the superstores, providing catalogs from which to make special orders. "We're prepared to wear many hats," he says.

MOVING IN. That's a role Bearings Inc. Chairman John C. Dannemiller also is assuming. He figures overall U.S. sales of industrial goods should be up 5% to 6% in 1994. But forget about raising prices. So he's boosting volume at the \$830 million Cleveland company by adding such products as motors, belts, and drives to his traditional lineup of industrial bearings. The key, he adds, is to go beyond simply flogging products. At some large customers, Bearings has begun doing energy audits of factory motors. Dannemiller thus hopes to entrench his company as a service provider—and sell more gear.

Distributors also see a continued blurring in 1994 between their usual functions and those of

their customers. "The point of differentiation is no longer product, but service," says Arthur Andersen & Co. consultant Patrick W. Dolan. Thus many companies will spend heavily on technology that lets customers electronically check inventories and prices and place orders directly. Some wholesalers are even moving in with customers. Supervalu Inc., a \$12.6 billion food wholesaler, is helping retailers with an array of jobs—from financing and staff training to store design. Supervalu also is moving more into retailing: This year, it will add 29 outlets to its roster of 246 discount superstores, warehouse clubs, and smaller grocery units, which go by the names Cub Food stores, Max Club, and Save-A-Lot.

PILL PATROL. Or take VWR Corp., a \$500 million distributor of laboratory supplies. Health-care cost containment, plus a tighter federal budget, cut its 1993 profits by about 10%. Chief Executive Jerrold B. Harris sees little reprieve from cost pressures but still expects a better 1994: As clients such as Chevron Corp. farm out work, VWR is sending in its own staff to manage their storerooms. VWR is also taking over purchasing for some DuPont research units.

McKesson & Co., the world's No. 1 drug distributor, has a multipronged strategy for dealing with health-care reform. The San Francisco company is expanding its PCS Health Systems unit, which provides managed-care prescription services to 42 million people. It will be linked with the cop-like chain of 4,500 Value Rite retail pharmacies that McKesson serves. McKesson is also setting up an electronic system between itself, pharmacies, and physicians to relay information on patient history and prescriptions.

"The position we've staked out in managed health care will lead to superior returns in the years ahead," insists Chairman Alan Seidenfreund, who sees 1994 earnings rising 12%.

Supervalu Chairman Michael W. Wright—and most other wholesaling CEOs—also are still on the prowl for acquisitions. A year ago, Supervalu spent \$1.1 billion for Wetterau Inc., based in Hazelwood, Mo. Now, it's eyeing more deals in the U.S. and is looking into superstore prospects in Russia, Turkey, and Japan. VWR's Harris, who has recently put together deals in Canada, Puerto Rico, and Germany, sees international links as "one way to get around slow growth at home." This year, distributors will look wherever they must to generate new business.

By Richard A. Melcher in Chicago

PREPPING FOR RADICAL SURGERY

No matter what reform brings, the health-care industry is boosting efficiency now

After a year of rhetoric and positioning, Washington finally has its blueprint to redesign the future of American medicine—Hillary Rodham Clinton's 1,342-page Health Security Act. But out where the needle meets the skin, the health-care industry isn't waiting for Congress to sign off on reform. An explosion of deals last year started to remake the industry—and heralded the massive changes in store for providers and their suppliers.

Both the legislative drive and the industry consolidation are aimed at slowing the spiral in health-care costs. Medical prices grew at the slowest rate in 20 years in 1993, but increasing volume—especially in the 40% of health care financed by the government—pushed overall spending up 10.2% last year, to an estimated \$903.3 billion. Another double-digit rise is expected in 1994. Curtailing spending has its risks: Health services have been an economic bulwark since 1990, adding 1.4 million jobs. But business and government can no longer stomach the kind of increases that are projected to lift health care's share of the nation's economy from one-seventh to one-fifth by the year 2000.

Regardless of what emerges from Congress, responsibility for health-care delivery is shifting radically. Employers, who bear nearly a third of the nation's health bill, are pushing managed-care systems that transfer the risk of medical costs to providers by paying a flat per-member fee for a year's care. More than 76.5 million Americans were enrolled in managed care in 1993, according to KPMG Peat Marwick, and the MO industry expects to gain another 5 million in 1994. "The best thing that could happen would be to debate forever," quips analyst Leopold Swerold of Furman Selz Inc. "The longer Washington talks, the more the industry shapes up."

FINISHING BEDS. This is truer of hospitals than of any other industry segment. They're being swept by a wave of mergers, and accounting firm Kenneth Leventhal & Co. predicts hospitals will eliminate 5% to 10% of their 920,000 beds in each of the next several years. That'll cut overhead, which as a share of expenses has fallen from 34% to 29% over the past five years, says J.D. Kleinke, of Baltimore-based health consultants HCIA Inc.

Columbia Healthcare Corp. shows why. In 1993, it signed deals to buy Galen Health Care Inc. and CA-Hospital Corp. of America to form a \$10.7 billion, 190-hospital chain. Next, Louisville-based Columbia will cut \$130 million in costs through

economies of scale and local consolidation. In South Florida, Columbia bought 13 hospitals, closed 3, and combined services such as radiology and clinical laboratories. Columbia hospitals are also linking with local nursing homes, rehabilitation centers, and physician groups. "The goal is to have one-stop shopping," says Columbia Chief Executive Richard L. Scott.

The drive for efficiency should bring rewards, too, for the nation's 20,000 nursing homes and the \$22 billion home-health-care industry. Nursing-home chains such as Beverly Enterprises Inc. in Fort Smith, Ark., and Integrated Health Services of Hunt Valley, Md., are pioneering "subacute facilities" where patients can convalesce at a fraction of the \$820-a-day cost of a hospital stay. To save more, managed-care networks are hiring home-health-care providers such as Kimberly Quality Care Inc. to provide home nursing for post-hospital and long-term treatment.

NEW LANDSCAPE. Health care's turn toward efficiency will probably be hardest on medical suppliers. The number of surgical procedures—usually up 3% a year—fell 1% in 1993's first nine months, cutting into the industry's \$38 billion in U.S. sales. Manufacturers such as Baxter International Inc. are restructuring their sales strategy for a world where network purchasing offices replace individual doctors and hospitals. In 1994, says analyst Eugene Melnitchenko of Legg Mason Wood Walker Inc., the industry's revenue growth may dip below 8% vs. double digits in recent years. The brightest spot may be overseas—especially Asia, where the Health Industry Manufacturers Assn. predicts 22% growth in sales of medical technology in both '94 and '95.

As health-care executives survey their changing landscape, their biggest question is: Does Washington know what's going on outside the Beltway? Health reform is "90% economic and 10% political," says analyst Kenneth S. Abramowitz of Sanford C. Bernstein & Co. "But the politicians could stop the economic progress in its tracks." Price controls and heavy regulation—two key features of the Clintons' bill—could dry up capital and block the restructuring that's under way. The President has said he is open to compromise, however, and Capitol Hill moderates who favor relying on market forces are gaining clout. In 1994, the industry will be rooting for Washington to ratify—not stultify—the revolution that has begun.

By Mike McNamee in Washington, with Zachary Schiller in Cleveland

PROGNOSIS '94

HEALTH CARE SERVICES

OUTPUT
BILLIONS OF '93 DOLLARS

'93 AND '94 ESTIMATES



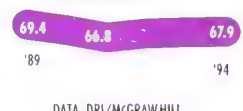
EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

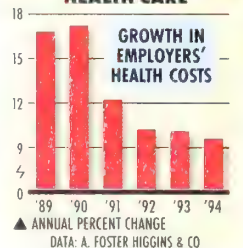
- ▶ Hospital mergers and alliances will add efficiency and slow the rise in health-care costs.
- ▶ Health reform expected in 1994 should cover the uninsured—38.5 million new clients.

NEGATIVES

- ▶ Proposed spending limits on treatment could hamper revenue growth.
- ▶ Hospital consolidation and industry-wide cost-cutting will hurt medical-equipment suppliers.

SPOTLIGHT

HEALTH CARE

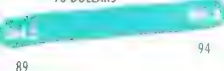


KEEP THOSE SEATBELTS ON

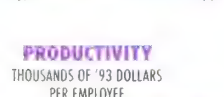
Airline profits are coming, but so is more turmoil

PROGNOSIS '94

TRANSPORTATION SERVICES OUTPUT
BILLIONS OF '93 DOLLARS
'93 AND '94 ESTIMATES



EMPLOYMENT
MILLIONS OF WORKERS
'89 '94



PRODUCTIVITY
THOUSANDS OF '93 DOLLARS PER EMPLOYEE
'89 '94



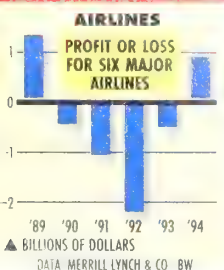
POSITIVES

- The stronger economy should boost air travel.
- Cost-cutting, labor deals, and cheaper jet fuel should lead to profits.
- International alliances could provide growth without heavy new investments.

NEGATIVES

- Labor strife at key airlines could undermine earnings.
- Fare wars may still proliferate.

SPOTLIGHT



Profits for the airline industry? It has to happen sometime, and analysts and industry executives believe the four-year earnings drought may break in 1994. The price of fuel is down, fares have firmed, international markets are rebounding, and the economy, the key factor in whether people travel, finally may be taking off.

There are few celebrations, however, in the boardrooms at United, American, and Delta. In the airline business, one storm usually follows another. Ultimately, 1994 will probably be better remembered for the changes roiling the industry than for profits. Employee ownership of United Airlines Inc. and relentless pressure from low-cost rivals such as Southwest Airlines Co. will force the major carriers to change how they do business. "The turmoil in the industry in terms of restructuring is more likely to grow than subside," says American Airlines Inc.'s chief financial officer, Michael J. Durham.

Not that airlines were expecting a mother lode anyway. This year, industry earnings should crest at \$750 million, although they may edge up if the \$5 billion in labor-cost cuts in United's new union buyout pact are replicated elsewhere. The profits will mainly be the result of changing fundamentals, including an expected 8% jump in passenger traffic and a 2% decline in industry capacity, as American, Delta, and United retire aircraft and postpone new deliveries. Cost-cutting during 1993, including \$400 million in savings at Delta Air Lines Inc., will also help.

NO, THANKS. If the future is to be permanently better, however, labor will be the key. United's mid-December agreement to sell 53% of the carrier to employees in exchange for 15% in wage concessions for pilots, 10% for machinists, and 10% for most other employees sets a hopeful tone. "American, Delta, and USAir Inc. will all have to forge similar deals with employees," says Morgan Stanley & Co. analyst Kevin C. Murphy. Indeed, American's chief executive, Robert L. Crandall, conceded as much in a recent speech. His only problem: Though informal discussions have taken place, his airline's unions say they don't want to own the carrier.

Who can blame them? United's new employee owners have a daunting task: restructuring the company so it can compete with Southwest and with low-cost regional entrants such as Reno Air, Kiwi International Air Lines, and Valujet.

They plan to do that by altering the hub-and-spoke system that ferries passengers from outlying cities through major airports en route to their final destination. This structure, in place since the early 1980s, increases costs sharply on short hauls because it underutilizes both aircraft and labor. United's employees plan to create what union leaders call an "airline within an airline" that will deliver the point-to-point service provided so well and profitably by Southwest. If it works, expect many of United's rivals to follow. **FOREIGN ALLIES.** To get through 1994 and beyond, the major carriers also have to learn some price discipline. Constant fare wars have drained off profits, and 1994 looks as though it will hardly be different, given that 1993 closed with two rounds of nationwide fare cuts. Still, this year's wars may be less severe partly because American plans to trim domestic capacity by as much as 6%. That should bring the number of seats more in line with demand, says American's Durham.

One arena in which the carriers seem to have found their way is international markets. In 1993, U.S. airlines may forge new partnerships with overseas carriers, especially in Asia. Alliances require no cash and let a carrier expand without building a system from scratch. United, for instance, struck more than half a dozen alliances during '93, including a deal to merge its European route system with that of German giant Lufthansa. The wisdom of this approach is clear to anyone who watched Delta after it bought defunct Pan American World Airways Inc.'s European routes in 1991. Since then, Delta has lost more than \$80 million in Europe, where it lacks the size to compete with national carriers. In 1994, Delta will trim its European operations.

Skirmishes over the access U.S. airlines have to markets in Japan and Europe will continue unabated in 1994. Negotiations between the U.S. and Britain, for example, over rights to each other's market will intensify early this year. The big stakes are stateside, however. It won't be easy for the major carriers to remake themselves. The leading role of labor has everybody watching, including the Clinton Administration, which hopes the industry will prove the value of employee ownership, a pet Clinton goal. The airlines are aiming for something a little less fanciful to prove they can finally make money.

By Kevin Kelly in Chicago

FAT CITY? FAT CHANCE

Frantic franchise-building will keep value and variety on the menu

Fresh from its first respectable year since the 1980s, the \$274 billion food-service industry should breathe easier in 1994. Should, but won't. The economy is better, but Washington may steal some sizzle from the business. "My nightmare isn't Frankenstein," says Allen J. Bernstein, president of Quantum Restaurant Group Inc., which owns several chains, including the upscale Morton's steak houses. "It's the government bureaucrat."

Not to mention the Clinton Administration and Congress. On Jan. 1, the government slashed business-meal deductions to 50%, from 80%. The Food & Drug Administration is finishing up rules governing advertising and menus at restaurants that claim to sell "low-fat" and "light" foods. Later this year, the Labor Dept. may propose raising the minimum wage by 50¢, to \$4.75 an hour. And health-care reform could be an added burden, especially for independent restaurants. The Employment Policy Institute, a hospitality industry think tank, says reform could be so costly that it could eliminate 10% of the industry's 9 million U.S. jobs. Steven A. Rockwell, an analyst for Alex. Brown & Sons Inc., sees a minimal impact, assuming that Congress adopts the proposed cap of 8% of payroll on health-care spending. That would boost total restaurant costs about 2%.

Whoever is right, the effect won't come this year. Meanwhile, industry sales will climb 4% vs. 3.4% in 1993, predicts the National Restaurant Assn. Once again using their clout to grab share, the 100 largest restaurant companies will grow at twice that rate, figures Ronald N. Paul, president of consultant Technomic Inc. Net margins for the top 65 independent public chains will widen 0.61%, he says, from 5.7% last year.

BACK FOR SECONDS. Some industry giants, such as PepsiCo Inc., are building portfolios of chains. The longtime owner of Taco Bell, KFC, and Pizza Hut has snapped up California Pizza Kitchen, a drive-through-only burger operator Hot 'N Now, and the 37-unit Chevy's Mexican restaurants. General Mills Inc., after several years of fine-tuning a third chain to complement Red Lobster and Olive Garden, will add 16 China Coast units by June to its existing nine.

Opening outlets at home and abroad is the recipe for growth at most chains. Buffets Inc., which runs 174 Old Country Buffet restaurants, is expanding as quickly as possible," says Chairman Roe H. Hatlen. It will launch 50 new units

in 1994, up from 40 last year. Not to be outdone, McDonald's Corp. plans to crank out as many as 1,200 new outlets in each of the next few years, up from its previous target of 900. Two-thirds will go overseas, though McDonald's sees opportunity at home in such nontraditional sites as Wal-Mart stores.

It isn't alone. Pizza Hut Inc. recently signed contracts to deliver to nearly 7,000 hotels operated by Hospitality Franchise and Choice Hotels. The key to such unconventional distribution, says McDonald's Chairman Michael R. Quinlan, is "matching costs to the available business. So I don't think any [location] is *verboten*."

Despite the stronger economy, value remains the watchword. There will be few menu hikes, despite some pressure on commodity prices from last summer's floods. Indeed, because of the roaring success of so-called meal deals and selectively lower prices at Wendy's and McDonald's, Burger King belatedly launched a similar program last fall. Promotions also will keep customers coming back. The 350-unit Applebee's chain, for one, will again feature seasonal items, such as Strawberry Bikini shortcake in the summer.

FOWL PLAY. Variety, too, will add spice to menus and sales. The hottest new product is rotisserie chicken. Its appeal is what's giving a lift to the 200-unit Boston Chicken Inc. chain. The company, which went public last fall, has a market value of \$770 million despite just \$44 million in sales. KFC Corp.'s Rotisserie Gold, rolled out last July, is doing land-office business, too. The company expects \$750 million in Rotisserie Gold sales in the product's first year—boosting KFC's 1994 system-wide sales by 10%, to \$8.15 billion.

There will be stars, too, among midprice eateries, including Chili's, Ruby Tuesday, Applebee's, Cheesecake Factory, and Bertucci's. But for every highflier, there are chains struggling because they failed to change with the times. That list includes Sizzler, Ryan's, and other budget steak houses; coffee shops, such as Denny's; and some traditional cafeterias, such as Luby's. To avoid getting in a rut, Buffets scrapped its cafeteria lines last year in favor of buffet islands. "We can feed a lot more people more quickly, and it gives us a more upscale feel," says Hatlen.

So to stay ahead, restaurants have to stay innovative. For while Washington's actions may or may not hurt, the competition won't let up.

By Lois Therrien in Chicago

PROGNOSIS '94

RESTAURANTS

OUTPUT
BILLIONS OF
'93 DOLLARS

'93 AND '94
ESTIMATES



EMPLOYMENT
MILLIONS OF WORKERS



PRODUCTIVITY
THOUSANDS OF '93 DOLLARS
PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

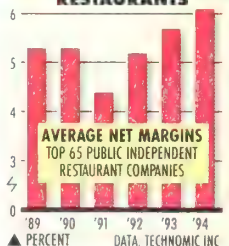
- ▶ In a healthier economy, more people eat out.
- ▶ Expansion by chains and "meal deals" marketing will increase sales and profits.

NEGATIVES

- ▶ Health-care reform could mean extra costs.
- ▶ Consumers are in no mood to pay higher prices.
- ▶ New tax provisions limiting business meal deductions may hurt white tablecloth restaurants.

SPOTLIGHT

RESTAURANTS



DANGER: COMPETITION DEAD AHEAD

Deregulation continues to jolt the staid world of power producers

PROGNOSIS '94

UTILITIES
93 AND '94
ESTIMATES
BILLIONS OF
93 DOLLARS



EMPLOYMENT
MILLIONS OF WORKERS



PRODUCTIVITY
THOUSANDS OF '93 DOLLARS
PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

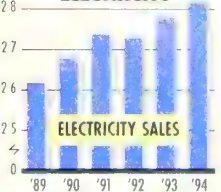
- After a flat couple of years, electricity demand is rising by 1.5% annually
- Utilities are getting more efficient.
- Lower fuel prices are helping keep operating costs down.

NEGATIVES

- More competition may force rates down.
- Citing lower interest rates, regulators are cutting allowed return on equity.

SPOTLIGHT

ELECTRICITY



▲ TRILLIONS OF KILOWATT-HOURS
DATA: EDISON ELECTRIC INSTITUTE, DONALDSON, LUTKIN & JENNETTE SECURITIES CORP. EST.

The Airco Gas & Gear plant in Joliet, Ill., is just 90 miles from another Airco factory in Indiana. Both use vast amounts of electricity to produce industrial gases. But Airco pays nearly twice as much per kilowatt-hour in Illinois as in Indiana. So John Occhipinti, Airco's vice-president for energy and materials, has a bold suggestion: He wants to import cheap Indiana power to Joliet. "Competition works in every other industry," he says. "Why not electricity?"

Such talk is sending a jolt through the utility business. Long protected, utilities have felt the harsh winds of deregulation in recent years. Freed to build generating plants, independent power producers are adding half the country's new generating capacity. The wholesale market for bulk power is fiercely competitive. And as 1994 dawns, big power buyers and some politicians are calling for an even more radical step: Let utilities or independents invade the turf of any utility and sell power directly to big customers.

MATTER OF TIME. Regulators have only allowed this practice, called "retail wheeling," in a few cases. But numerous states, led by New Mexico and Michigan, are debating the pros and cons. If they give the go-ahead, local utilities would be forced to transmit (or "wheel") power for a competitor that charges less. That scares many high-cost utilities, especially those with big debts from nuclear plants, who fear that competition will force rates below the breakeven level. "This could have an enormous impact on virtually every utility in the Northeast," says Jeffrey D. Tranen, head of the wholesale-power unit of New England Electric System in Westboro, Mass.

Still, many insiders think it's only a matter of time before electricity follows the deregulatory paths of telecom and natural gas. "The pressure from big customers [to cut prices] is incredible," says Roger W. Hale, chief executive of LG&E Energy Corp., a Louisville utility. Retail competition "is a steamroller, and nobody is going to get in its way."

To prepare for this cutthroat world, most utilities will do more cost-cutting in 1994, eye once rare mergers, and change staid cultures. At least 30 utilities have cut staff over the past 15 months, ranging from 7% of the work force at American Electric Power Co. in Ohio to an astonishing 30% at Texas Utilities Co. Since 1989, Centerior Energy Corp., a troubled Cleveland utility, has cut operating costs by 12% and capital

expenditures by a third. "We're taking a hard look at everything we do," says David M. Blank Centerior's director of strategic planning.

Many utilities also are revamping their structures. They're dumping vertical integration in favor of functional divisions: generation, transmission, and retail supply. That will help pinpoint where costs are incurred—and profits made—if companies that have operated on a cost-plus basis. LG&E's Hale believes such steps presage a revolution. Someday, he says, LG&E's new retail division will buy power from the cheapest source—not necessarily from its own plants.

Retail competition won't come without a fight. Environmentalists have joined many utilities in an odd coalition: They fear that clean air, conservation, and diversity of fuel sources will get short shrift if utilities compete only on price. Consumer advocates also oppose retail wheeling, worrying that as big customers get lower prices, captive homeowners will end up footing more of the bill for the utility's capital costs.

With such fierce resistance, regulators will go slow. Nevada, for example, recently passed a law allowing retail wheeling. But it's worded so narrowly that it will apply only to a proposed steel plant the state is trying to lure. This ad-hoc situation worries some policy mavens, including Paul L. Joskow, professor of economics at Massachusetts Institute of Technology's Sloan School. "The danger is that we'll end up with a tyranny of small decisions, without a coherent vision," he says.

All this ferment is taking place in a tough economic climate for utilities. Demand, which grew by more than 3% annually from 1980 to 1988, rose an anemic 1% in 1993, estimates Daniel Scotto, an analyst at Donaldson, Lutkin & Jenrette Securities Corp. His 1994 forecast: 1.5%. Cheap fuel and excess capacity have

led to brutal wholesale pricing. Even in the high-cost Northeast, some utilities are signing 10-year contracts for 4¢ a kilowatt-hour, well below the region's 6¢ to 7¢ average generating cost. Stirring tightfisted regulators, and the industry's return on equity may average just 10% in 1994, down from a peak of 13.8% in 1984.

Uncertain growth prospects. Job cutbacks. Tough competition. Sound familiar? "The utility industry is becoming much more like the rest of Corporate America," says Scotto. And 1994 promises to bring even more turmoil to this once staid business.

By Mark Maremont in Boston



WAITING FOR A MEGADEAL

Profits are soaring, and nearly everybody is shopping around

It has been nearly a decade since television host Monty Hall looked beyond that last curtain. But for the entertainment industry, the latter part of 1993 was one big rerun of Hall's old how, *Let's Make a Deal*. Cable-TV companies inked up with studios, telephone companies leached out for cable companies, and even home-ideo giant Blockbuster Entertainment Corp. guaranteed itself a source of tapes by buying a pair of Hollywood production companies. There's little doubt that the dealing will continue in 1994. It's like the '80s all over again," says Peter Hoffman, former president of film-production company Carolco Pictures Inc.

This year, investment bankers expect more hostile takeovers, and heftier prices. None may match the \$30 billion merger of phone company Bell Atlantic Corp. and cable giant Tele-Communications Inc. But after the bidding war for Paramount Communications Inc., buyers will scramble for what is becoming a scarce commodity: film- and TV-production companies that can provide programs for the 500 cable channels many subscribers may have by decade's end. "It's like a game of musical chairs," says Michael P. Schulhof, chairman of Sony Corp. of America. "There are only five major studios and 10 people looking for a chair."

NEW BIDDERS. The studios, in turn, want an electronic pipeline into the home. In 1994, Sony may peddle at least a piece of its Columbia Pictures to a cable or phone company: It has hired investment bankers at Furman Selz Inc. to start the process. A likely bidder: the Bell Atlantic-TCI combine. TCI President John C. Malone has talked to Universal Pictures owner Matsushita Electric Industrial Co. about buying all or part of the film company. And News Corp. Chairman Rupert Murdoch is said to be looking to sell part of his Twentieth Century Fox Film Corp.

The chase for studios may include new bidders such as software giant Microsoft Corp., Hollywood insiders say. But much of the action will come from cable companies, which can use the deep pockets of their new phone-company allies and need new programming to boost revenues. After rapid growth in the 1980s, the cable market has matured. The number of subscribers will grow just 2.7% in 1994, to 59 million households, according to Paul Kagan Associates. To attract new viewers, 66 new channels are set to bow in this year—three times as many as in 1993—including the environmental ECO Network, the Food

Network, and the Trax Channel for car buffs.

With a revived economy and the Winter Olympics in 1994, TV ad revenues should grow by 5% to 7%, to \$32 billion, according to the Television Bureau of Advertising (TVB). The biggest gainer: cable, with a hike of 11% to 13%, to \$2.7 billion. The traditional networks should prosper, too. Saturation of the cable market helped the Big Three rebound in 1993, to 62% of the audience from 60% in 1992, according to A. C. Nielsen Co. Their share should rise again in 1994, predicts industry economist Arthur Gruen of Wilkosky Gruen Associates Inc. That will mean a 4%-to-6% hike in ad revenues, to \$10.1 billion, after a flat 1993, predicts the TVB.

Add in cost-cutting through layoffs, and profits should take off. Operating earnings for ratings leader CBS Inc. will jump 27% in 1994, to \$395 million, on revenues of \$3.95 billion, predicts PaineWebber Group Inc. analyst Alan J. Gottesman. Operating income at General Electric Co.'s NBC Inc. will jump 33%, to \$400 million, says NatWest Securities Corp. analyst Nicholas Heymann, while

Furman Selz analyst John Tinker figures that Capital Cities/ABC Inc.'s network unit will earn \$1.08 billion from operations, up 17%.

Still, the Big Three face new rival networks to be launched by Warner Brothers in mid-1994 and Paramount Communications Inc. in early 1995. To combat the outsiders, NBC and ABC will roll out new cable channels. The networks may also forge alliances with Hollywood—having been freed last year from Federal Communications Commission rules that long blocked them from owning production companies. On everyone's list: Walt Disney Co., which may also be in the market to buy a network, possibly CBS or ABC.

Hollywood's box-office take was up a robust 10%, to \$5.1 billion, in 1993, despite a lackluster Christmas. That should help boost video sales 4% this year from last year's \$14.9 billion, estimates *Video Software* magazine. This year will have no blockbuster *Jurassic Park* but should have hits—such as Columbia's *City Slickers 2*.

The one blockbuster could be a megadeal. "We all feel like kids with a nickel looking into the candy store window," says Glenn R. Jones, who in December sold 30% of his cable-systems company for \$400 million to another window-shopper, Canadian telephone operator BCE Inc. In 1994, a lot of hungry buyers may crowd the candy store.

By Ronald Grover in Los Angeles, with Mark Landler in New York



PROGNOSIS '94

ENTERTAINMENT INCLUDES BROADCASTING



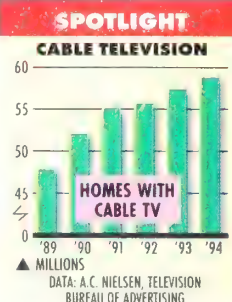
DATA: DRI/MCGRAW-HILL

POSITIVES

- ▶ Cable ad sales should be strong.
- ▶ The major networks will hold their audience.
- ▶ Increased film production and strong box office should boost studio profits.

NEGATIVES

- ▶ After booming growth over the past decade, significant increases in cable viewership will be hard to come by.
- ▶ A shakeout is likely as 66 new channels vie for cable viewers.



FINANCE

BANKING

Is the industry headed for another year in "bank heaven"? Could be
Page 103

INSURANCE

Entering the unfriendly territory of health-care reform
Page 106

SECURITIES

After three record years on Wall Street, '94 still looks pretty good
Page 107

REAL ESTATE

Subdued rates should help the industry build on its quiet comeback
Page 108



ANOTHER YEAR IN 'BANK HEAVEN'?

Profits will keep coming—but not as easily as they did in '93

After turning in record earnings the past two years, banks are gearing up to make it three in a row. Low inflation, better loan quality, and an improving economy should boost profits to unprecedented levels in 1994. With the fall in interest rates apparently over, though, the longer-term outlook is less clear. So as traditional wellsprings of earnings start to dry up, banks will accelerate their push into new businesses.

By most measures, 1993 was a banner year. CS First Boston analyst Thomas Hanley called the combination of low short-term interest rates and a slowly strengthening economy "bank heaven." Profits likely soared to more than \$40 billion, asset quality improved, and many bank stocks hit all-time highs. Even thrifts fared better, as failures slowed to a crawl.

The industry will have to overcome stiff challenges to excel again this year. The downside of low interest rates is starting to show, for example. Falling rates lift bank profits by cutting borrowing costs while increasing the value of a bank's investment securities. But stable rates reduce borrowers' payments on new loans and gains on bond investments, key sources of bank revenue. The effects started showing up in last year's third quarter. Banks earned \$11.45 billion, up 35% from a year earlier, and even though the number of S&Ls fell 8%, to 1,719, thrift operating earnings rose a smidgen, to \$1.26 billion. Still, bank net interest margins—the profitability of loans and investments—fell nearly a quarter of a point in the first nine months of 1993, to 4.45%. Profit margins declined for thrifts as well.

HAPPY LENDING? Still sluggish lending will hurt banks, too, though loan volume may rise faster than the 3% growth posted for the 12 months ended in September, 1993. A decline in lending volume that started in 1991 "is reversing but not by much," says Robert C. O'Brien, head of Chemical Banking Corp.'s corporate banking division. One reason is that banks are losing corporate customers, who find it ever easier to tap capital markets: New stock and bond issues exceeded \$1 trillion in 1993.

Banks and a few thrifts are thus trying to diversify: Noninterest income—from fees and the like—may hit 40% of major banks' revenue in 1994, up from 37.6% in 1992, according to Merrill Lynch. Mutual funds are one reason why. Banks are selling them to hold on to savers who, dismayed by low rates, are going elsewhere. Some

banks are taking extreme steps. First Union Corp. in Charlotte, N.C., bought fund manager Lieber & Co. last year, and Pittsburgh's Mellon Bank Corp. agreed to merge with mutual-fund giant Dreyfus Corp. Mellon CEO Frank V. Cahouet says the \$1.7 billion deal will create the "financial institution of the future."

Big-city banks are also pushing into corporate finance and advisory work once dominated by investment banks. J.P. Morgan & Co. often appears on top 10 lists for securities underwriters, while Bankers Trust New York Corp. has built a reputation as a trading powerhouse. Both earn millions in fee income as dealers of the complex instruments called derivatives, and both probably posted solid earnings gains for 1993.

Other banks are winning authorization to expand into securities underwriting.

STAYING ALIVE. Many banks also are changing how they deliver products. Citicorp and others give customers the option of doing nearly all banking by phone. At Chase Manhattan, Chief Information Officer Craig Goldman thinks branches could eventually be supplemented by videoconferencing kiosks where customers talk to bank officers. That could provide better service with lower overhead.

Mastering such transitions early may be key to survival in an eat-or-be-eaten game.

More than 500 banks merged or closed in the year ended in September '93. Midsize banks are often particularly vulnerable. "Five years from now, we will either be a significantly larger bank or we'll be a part of someone else," says Carl L. Campbell, CEO of \$3.1 billion Keystone Financial Inc. in Harrisburg, Pa.

Few big regulatory or legal changes are likely this year, though there will be spirited debate on how Washington should oversee the industry. In the name of efficiency, the Clinton Administration has proposed a plan to combine all bank regulators in one new agency. Such a move is vehemently opposed by the Federal Reserve, which would lose nearly all its authority to oversee banks. The Administration also wants tougher enforcement of fair-lending laws. And bank regulators may tighten rules to make sure customers are warned of the differences between uninsured mutual funds and insured deposits.

As they merge and diversify, banks will start to look quite different before 1994 is over. That will be the price they'll pay for continuing prosperity.

By Kelley Holland in New York, with Dean Foust in Washington

PROGNOSIS '94

BANK SERVICES



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

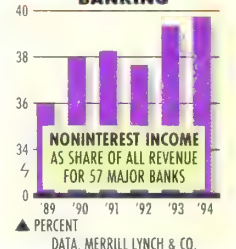
- ▶ Lending is rising as the economy gains strength.
- ▶ Asset quality is improving, reducing the need for additional reserves against future losses.

NEGATIVES

- ▶ Profits on loans and investments will shrink if interest rates stabilize or rise.
- ▶ Customers will continue to desert banks for mutual funds and the capital markets.

SPOTLIGHT

BANKING



TAURUS PUT AMERICA'S DRIVERS FIRST.
AND THEY RETURNED THE FAVOR.



FORD TAURUS
AMERICA'S
BEST-SELLING CAR.

It's a perfect relationship.
Ford keeps right on working
to make sure Taurus is sleek,
refined and safe.

In return, America's drivers
keep right on loving it.

They've made it the number
one selling car in America.*

Look into the 1994 Taurus,
and you'll find solid proof that

Ford knows what drivers are
looking for.

**HAVE YOU DRIVEN THE
LATEST TAURUS?**

The 1994 Taurus is as beautiful
as ever, inside and out. Its ride
is smooth and quiet, its body
corrosion resistant and its list of
amenities even longer.



Because safety matters more than
; Ford engineers are putting

even more
time and
effort into it.

That's why,
an added measure of safety,
air bags** are standard and
available on every Taurus.
l speaking of security...



**EVERY 1994 FORD COMES
WITH OUR ROADSIDE
ASSISTANCE PROGRAM.****

Help is only a toll-free call away
if you need a flat tire changed,
lockout assistance or a fuel deliv-
ery. One more example of how
much we care.

*Based on 1993 MYTD manufacturer's reported retail deliveries.
**Driver and right front passenger supplemental restraint system.
Always wear your safety belt.

***3 years/36,000 miles. See dealer for details.

**HAVE YOU DRIVEN
A FORD LATELY?**



RAINY DAYS AND JUICY PREMIUMS

Insurers will get battered in some businesses and clean up in others

PROGNOSIS '94

INSURANCE

OUTPUT
BILLIONS OF '93 DOLLARS

'93 AND '94
ESTIMATES



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '93 DOLLARS
PER EMPLOYEE



DATA: DRI/MCGRAW-HILL

POSITIVES

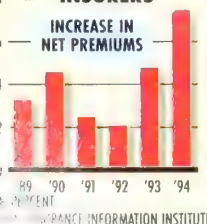
- Premiums for auto and home policies should jump 7.4%, boosting profits.
- NAFTA opens up the Mexican market for life and property insurers.

NEGATIVES

- Impending reform will stymie any profit growth for health insurers.
- A move in Congress to end insurance redlining could increase overhead.
- Product-liability insurers need to boost reserves.

SPOTLIGHT

PROPERTY-CASUALTY INSURERS



Multiline insurers will experience the best and worst of times this year. Property and casualty rates are expected to jump 7.4%, the biggest gain in seven years. That should boost profits in both auto and home coverage. But health-insurance earnings will suffer as the industry holds down rates in anticipation of health-care reform. Overall, health-insurance rates should rise 5%, less than half the increase two years ago.

Naturally, insurers think they are best at providing health coverage: "There is nothing that the federal government can do better than the private sector except build bombs," says Ronald E. Compton, chairman and chief executive of Aetna Life & Casualty Co. Still, insurers are making drastic changes. Fearing that President Clinton's plan means the government will take over many traditional insurance company functions, Aetna is opening doctors' offices in Atlanta, Baltimore, and Dallas. CIGNA Corp. is laying off 1,000 workers, 4% of its total. And ITT Hartford Insurance Group has sold its health business to competitor Massachusetts Mutual Life Insurance Co., a precursor of consolidation in the industry. Half of today's health insurers won't be in business by the end of the decade, predicts rating agency A. M. Best Co.

THE MEXICAN FACTOR. Under reform, big insurers that run large managed-care networks—Metropolitan Life, Aetna, Prudential, CIGNA, and Travelers—are likely to remain in the business. Some with smaller market shares and less comprehensive managed-care plans may have to settle for offering administrative services to the health alliances called for in Clinton's plan. Others will seek growth in areas that won't be affected. UNUM Life Insurance Co. is increasing its marketing of disability insurance, and Hartford Life wants to dominate the annuity market.

Each of those markets should fuel life-insurer profits this year. With more consumers heading for retirement, variable annuity sales should jump from \$30 billion in 1993 to \$60 billion in 1994, predicts *VARDS Report*, an industry newsletter. As companies cut disability coverage, sales of such policies to individuals could triple over the next decade, to \$10 billion, says analyst Margaret M. Alexandre of Salomon Brothers Inc. And with the North American Free Trade Agreement opening new markets, look for insurers to sell more policies in Mexico and Canada.

For the \$228 billion property-casualty industry, the overriding concern in 1994 will be to avoid another catastrophe by reducing exposure to storm-prone coastal regions, for example. With the California fires, the Midwest flooding, and the March blizzard, last year was the third-worst ever for disaster claims, as insurers shelled out more than \$5 billion.

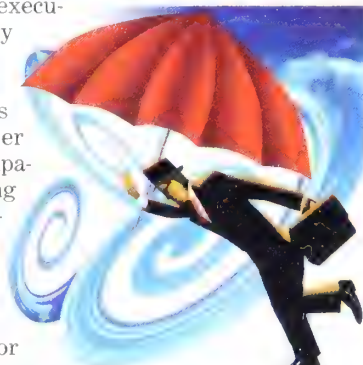
So property-casualty companies are also raising rates and boosting capital. Prudential has pumped \$900 million into its property-casualty subsidiary. Industrywide, available capital—from which claims are paid—stood at \$175 billion at year-end, up 7.4%. But it should be at least \$200 billion, analysts say. Reserves for product liability, workers' compensation, and environmental claims are most deficient: In November, CIGNA reserved \$24 million on top of \$500 million already set aside for asbestos and environmental claims. The Securities & Exchange Commission has said it will keep pressuring insurers to pad reserves. Even so, property and casualty profits in 1994 could top \$20 billion, up 17% from 1993, according to the Insurance Information Institute.

The wild card in the outlook for property and casualty insurers is investment income: It slipped 5% in 1993 for the industry, only the second drop since 1942. Analysts surveyed by the insurance institute predict that the industry's cost of paying claims will rise slightly this year, to \$1.10 for every \$1 collected in premiums. With a rate that high, property and casualty earnings could be hurt in 1994 if investment returns can't make up the difference. "Investment income in '94 is going to be much better, and it could be flat or down," says Donald R. Frahm, ITT Hartford Insurance Group's chief executive.

Insurers also may be hurt by a movement in Washington to curtail redlining. Two representatives, Cardiss Collins (D-Ill.) and Joseph P. Kennedy II (D-Mass.), want the industry to keep data on how many policies are sold in inner-city areas. Aetna's Compton, who once sold home owners' policies in Philadelphia, backs redlining reform. "If you can take care of your house," he says, "why shouldn't you have insurance?"

From redlining to health-care reform, insurers will face many challenges in 1994. But don't feel too sorry for them. Much of the industry will push through higher rates and end up with better profits.

By Chris Roush in Hartford



TALK ABOUT A HOT STREAK

It seems too good to be true, but Wall Street should stay on Easy Street

Coming off three record years in a row, Wall Streeters feel as if they've won a triple jackpot. So instinctively, some anticipate a slowdown in 1994. "I don't think you can expect everything to go right," says Philip J. Purcell, CEO of Dean Witter Discover. He calls 1993 "a once-in-a-career event."

Maybe so. But if interest rates stay down, the Street should have another strong year. Although some types of underwriting are tapering off as companies finish refinancing high-interest debt, other businesses are picking up. Last year, Purcell notes, "trading was great, mergers and acquisitions were back, the retail and institutional investor was active, and you had the mutual-fund inflows." On top of all those, the industry could benefit in 1994 from a brisk market for initial public offerings, strong demand for high-interest junk bonds and tax-free municipal bonds, further growth in global investing, more securitization of financial instruments, and rising interest by millions of baby boomers in retirement planning.

Last year, brokerages earned about \$8.8 billion before taxes, besting the 1992 record of \$3.2 billion, says the Securities Industry Assn. (SIA). In 1994, analysts estimate pretax earnings could be a still-hefty \$7 billion. "We're going to have a pretty good year," says Addison L. "Tad" Piper, CEO of Piper Jaffrey Cos.

GLOBAL FOCUS. Global investing, a major story in 1993, is one trend that shows no sign of abating. Some \$22 billion flowed into international mutual funds last year, up from \$2 billion in 1992. To capitalize on the increased activity, U.S. investment banks are making unusual moves to woo institutional clients. Morgan Stanley & Co. opened offices in Shanghai and Bombay last year, and Moscow and Mexico are on the agenda for 1994. "Over the next two to five years, there will be tremendous opportunities for financial institutions due to the globalization of investing," says John Mack, president of Morgan Stanley Group Inc.

International expansion is helping to boost hiring, too. Morgan Stanley's Hong Kong office grew 74%, to 250, during 1993, and the company's worldwide employment jumped from 7,400 to 10,000. Domestically, Piper Jaffrey enlarged its sales force by 12% in 1993, to 950 brokers, and expects to add 95 more in 1994. Overall, industry employment climbed from 230,000 to 236,000 last year, according to the SIA. That's below the 1987

peak of 260,000 but up from 210,000 in 1990. Securities payrolls could rise modestly again in '94.

At the same time, U.S. investment banks may team up with their foreign counterparts, many of which are eager to gain entry to the U.S. market. "I predict some global alliances in 1994," says Michael A. Carpenter, CEO of Kidder Peabody & Co. Kidder is already partners with the largest independent merchant bank in Italy and the leading equity firm in Spain.

URGE TO MERGE. Domestically, consolidation will continue in 1994. Last year, Primerica's Smith Barney, Harris Upham division gobbled up Shearson Lehman Brothers, creating Smith Barney Shearson. The firm will close about 60 offices in the next few years, and its work force will drop by 2,000, estimates Sanford C. Bernstein & Co. analyst Guy Moszkowski. As the industry becomes more capital-intensive, analysts say, such midsize firms as PaineWebber and General Electric's Kidder Peabody could also become acquisition targets.

A frenzy may build for initial public offerings by securities firms, too. Analysts believe American Express Co. is poised to sell some 20% of Lehman Brothers in an IPO in early 1994. (Lehman is the investment-banking arm of Shearson that wasn't sold to Primerica.) And Equitable Life's senior management has hinted that Donaldson Lufkin & Jenrette could follow Lehman to the public market.

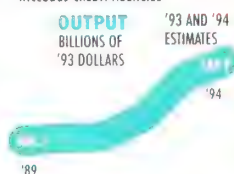
The two menacing clouds on the horizon are the possibility of higher interest rates and a stock-market decline. If rates go up modestly, brokerage profits could decline about 20%. Even if that doesn't happen, some market watchers believe that stocks have been too high for too long. "You could see an end to this extraordinary bull market, which would change the ease with which equity has been raised. Then, Wall Street could have a poorer year," says Michel David-Weill, senior partner at Lazard Frères & Co.

If the market falls, some firms are better positioned than they were in the past to weather hard times. During the fat years, they've tucked away big reserves. Merrill Lynch & Co. set aside about \$120 million in 1992, and it put away that much again in the first three quarters of 1993, estimates Bernstein's Moszkowski. "You hope for the best but plan for the worst," says Kidder's Carpenter. In 1994, the Street is betting that once again, the best is all it will see.

By Leah Nathans Spiro in New York

PROGNOSIS '94

SECURITIES INCLUDES CREDIT AGENCIES



DATA: DRI/MCGRAW-HILL

POSITIVES

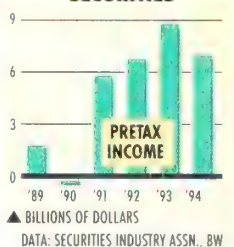
- Low interest rates will keep Wall Street busy selling equity mutual funds and underwriting new issues.
- Mergers and acquisitions are picking up, and international investing is generating popular new products.

NEGATIVES

- The industry has just had three record years in a row, and some investors fear a big stock market decline may come in 1994.

SPOTLIGHT

SECURITIES



A TIME TO REBUILD

Low rates and new capital will drive a modest turnaround

PROGNOSIS '94

REAL ESTATE & CONSTRUCTION



EMPLOYMENT



PRODUCTIVITY



DATA: DRI/MCGRAW-HILL

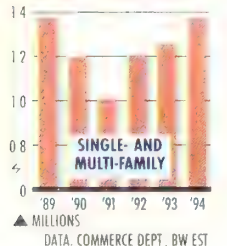
POSITIVES

- ▶ New capital will become available as many real estate firms go public.
- ▶ Home sales and housing starts are rising, and so are median home prices.

NEGATIVES

- ▶ If interest rates rise too much, housing could stall as first-time buyers retreat.
- ▶ Many commercial markets still suffer from overbuilding in the 1980s.

SPOTLIGHT



Real estate will rise slowly from the ashes this year. Housing is emerging already, and there are stirrings of life in commercial properties. But a soaring recovery isn't yet in sight for the industry, which has been transformed by five tough years. A better economy notwithstanding, property values will be ruled by supply and demand in 1994, not by '80s-style speculative excesses.

Housing provided much of the good news for real estate last year, as low interest rates enticed many first-time buyers. Sales of existing single-family homes totaled 3.7 million, up 5%-plus. The National Association of Realtors (NAR) predicts that sales of existing homes will grow 10% this year, and that prices will rise to a median \$110,900 from \$106,000 in October, 1993. Single-family home starts, after rising 6% in 1993, to about 1.2 million, should jump 10% in 1994, to 1.37 million, predicts the National Association of Home Builders (NAHB).

The possible bugaboo in the housing markets is interest rates. But the general consensus is that rates won't rise dramatically from the current 7.29% on a 30-year fixed mortgage loan. "Even if rates go up a couple of points, they're still at the lowest levels of the past couple of decades," says J. Larry Sorsby, senior vice-president for finance at \$600 million homebuilder Hovnanian Enterprises Inc. in Red Bank, N.J. He argues, in fact, that an uptrend could unleash home purchases by fence-sitters who are waiting for rates to bottom. Sorsby doesn't expect residential activity to drop off until the rate on 30-year mortgages approaches 9% to 10%.

OFFICE PARTY. The outlook for multifamily housing is also brightening. Granted, vacancy rates still hover around 10%, even though there hasn't been much new supply in years. But the 77% decline in multifamily housing starts since 1985 appears to have ended. A provision in last year's federal budget act making permanent a tax credit for building and renovating low-income housing "is responsible for all of the increase we see in 1994," says Stanley Duobinis, director of forecasting for the NAHB. Duobinis expects multifamily starts to reach an annual rate of some 213,000 by yearend, up 35% from last year.

The fortunes of many commercial business districts are also stabilizing. The national vacancy rate for office properties inched down 0.4%, to 16.6%, in 1993's third quarter, real estate broker-

age Grubb & Ellis Co. in San Francisco reports. That's well below the 1990s high of 18.9%, though still plenty above the 1980s low of 9%. Rates fell in 27 of the cities tracked by Grubb & Ellis, including Miami and Denver, and rose in seven, including Detroit and Houston. Rents, however, are flat, in part because of corporate downsizing. **"HOTELING."** That also helps explain why suburban office markets may fare better than central city business districts in 1994. In Dallas, for example, vacancy rates in the suburbs inched down to 24.2% in 1993's third quarter, but downtown they rose five points, to 31.5%. Telecommuting is a factor, as are practices such as "hotel-ing" where a number of employees, such as traveling salespeople, use the same office at different times.

"Technological change is reducing the need to warehouse people in big buildings," notes John Tuccillo, economist for the NAHB. Times are still tough in the retail sector, where only top-quality, well-located malls are thriving. Their next worry is interactive home shopping.

One of the biggest changes in the real estate market is the availability of capital after a long dry spell. Money is beginning to flow both to developers who take their properties public via a real estate investment trust (REIT), a sort of mutual fund of properties, and to large homebuilders looking for credit—not necessarily from traditional lenders. Hovnanian took advantage of low interest rates in 1993 to issue \$200 million of subordinated debt in 10- and 12-year maturities. "We've shifted our dependence more toward long-term capital and use bank debt more for short-term working capital needs," says Sorsby.

Much of the new capital reflects interest on Wall Street in the fees generated by turning real estate into a more liquid investment with an active secondary market. The sale of securities crafted out of pools of commercial mortgages is one way to do that. A more popular method is to issue stock in a REIT, which holds actual properties. About \$10 billion worth of REIT initial public offerings hit the market in 1993. While still a fraction of the real estate market, REITs grew from a market capitalization of \$8.7 billion in 1990 to \$30 billion in 1993, though a glut of new issues may cool off the market in 1994.

In short, the years of free-fall in real estate values are over. And bit by bit, the foundation is being laid for a solid rebound.

By Suzanne Woolley in New York



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Rod Linafelter

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In addition to studying the figures, Portfolio Manager Rod Linafelter and his staff visit the companies owned by the Funds

ANNUALIZED PERFORMANCE						
For the period ending 9/30/93						
Berger 100 Fund	1 Year 41.0%	3 Years 40.3%	5 Years 27.6%	10 Years 15.4%	15 Years 16.4%	19 Years* 16.2%
Berger 101 Fund	1 Year 26.5%	3 Years 29.4%	5 Years 16.6%	10 Years 12.6%	15 Years 13.2%	19 Years* 14.3%

Source: Lipper Analytical Services, Inc.

Our performance pays off with high marks. The *Fortune*® 1994 *Investors' Guide* reported the annual rate of return of both growth and growth and income funds, after any sales loads and taxes,** for the three-year period ending August 31, 1993. The Berger 100 Fund, with a 32.7% rate of return, ranked second out of 193 growth funds, and the Berger 101 Fund, with a 23.3% return, ranked first out of 114 growth and income funds. Naturally, as with any mutual fund, past performance shows the funds' history and does not guarantee future results.

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for a prospectus containing more complete information including management fees, charges and expenses. Read it carefully before investing.



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The figures include changes in share price and reinvestment of dividends and capital gains, which will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The figures include the deduction of 12b-1 fees beginning in June, 1990. *Berger Associates assumed management of the fund 9/30/74. **Annual rates of return were calculated by Morningstar in each category, net of taxes, assuming a 28% rate on capital gains and income distributions. Source: Lipper Analytical Services, Inc.



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NEW PRODUCTS

ity is up, and joblessness is down. Cruising into 1994, the country is buoyant, feeling O.K., due in no small part to the success of many exceptional businesspeople and the fascinating products they made in 1993.

In these pages, you will find the person who poured the first concrete for the Information Superhighway. A guy who's leading the Midwest manufacturing renaissance. A savvy retailer bringing back a household name from the dead. Two Detroit car nuts doing what

everyone thought was impossible—beating the Japanese at their own game. A money manager who's tripling the S&P 500 return. A

MANAGERS

Hong Kong entrepreneur who's the biggest investor in China. A new chicken king. A woman who parlayed her startup into a half-billion dollars. Multimedia software that's mind-boggling! "Muscle" cars that bring back the '50s. Knock-

out computers. And the Lamborghini of mountain bikes.

These are among the outstanding achievements for 1993. BUSINESS WEEK asked its editors around the world to nominate the year's most fascinating performers and products. Here are the exciting

ENTREPRENEURS

HIGHLIGHTS OF THE YEAR

THE BEST NEW PRODUCTS

HEAVY HAULER

Taking cues from the brawny trucks of the '50s, Chrysler's new tough-looking Dodge Ram pickup, starting at \$12,500, packs an optional V-10 engine.



SNEAK PREVIEW

The Sharp Viewcam's 4-inch liquid crystal display reinvents the camcorder. The price: about \$1,600.



INSTANT PC

The Compaq Presario all-in-one home personal computer is simple to set up, doubles as an answering and fax machine, and comes preloaded with useful software. The price: about \$1,400.



INTERACTIVE FUN

Multimedia software is where it's at. So take a virtual scuba dive in Oceans Below, a \$50 CD-ROM from Software Toolworks Inc. Or interact with digitized actors in Media Vision Inc.'s \$80 Quantum Gate, a science-fiction movie/game set.



FITNESS BREAK

The Fitness Master FM570 motorized stairclimber offers a nice, sweaty aerobic workout at home. The price: \$799.

TODAY'S LEGO?

Kids love them! K'nex construction sets are superhot. Color-coded pieces snap together. From \$10 to \$100.



PHOTOGRAPH BY TED MORRISON (EXERCISE)

THE BEST NEW PRODUCTS

LAPTOP LIGHT

Hewlett-Packard's 2.9-pound OmniBook PC is really portable. Four AA batteries yield 10 hours of work. With software, the price is \$1,600.



POWER STAPLES

Black & Decker's PowerShot heavy-duty stapler is redesigned for easy use. A side-window shows staples. Price: \$19.99.

ROAD RUNNER

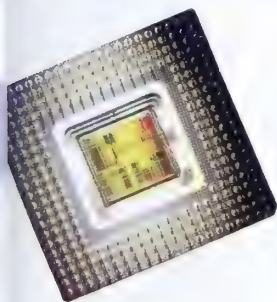
The muscle car is back. Ford's new \$17,280 Mustang, with design echoes of the famous original, pounds out of the gate with 215 ponies under the hood. But can it catch Chevy's Camaro Z28, with its 275 horsepower?





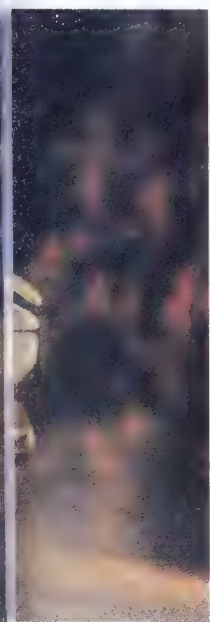
Apple Computer's Newton fizzled big and got savaged by Doonesbury. But the concept of personal digital assistants is a winner. PDAs promise information anywhere, anytime, anyplace. Great idea.

**NICE TRY
GUYS**



HOT CHIP

Rivals are nipping at Intel's Pentium microprocessor, but this chip easily runs every generation of IBM-compatible software. Next: desktop video.



UP, UP AND AWAY

Cannondale's Super V is the Lamborghini of mountain bikes. At \$3,500, it has dual shocks, a 4.4-pound flexible aluminum frame, and lots of attitude.



PHOTOGRAPHS BY MARK RICHARDS (DOT) AND TREVIERG (B&E)



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CONSOLIDATED INVENTORY REPORT
ACROSS THE CORPORATION, NOW.

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END SHIPMENTS BY REVENUE AND
PROFIT TARGETS?

WHAT IS THE PRODUCT MIX
COMING DOWN THE PIPELINE?

REAL-TIME, CORPORATE-WIDE
PROFIT ANALYSIS? HAH

BEFORE YOU GO AND SPEND YOUR NEXT BILLION DOLLARS

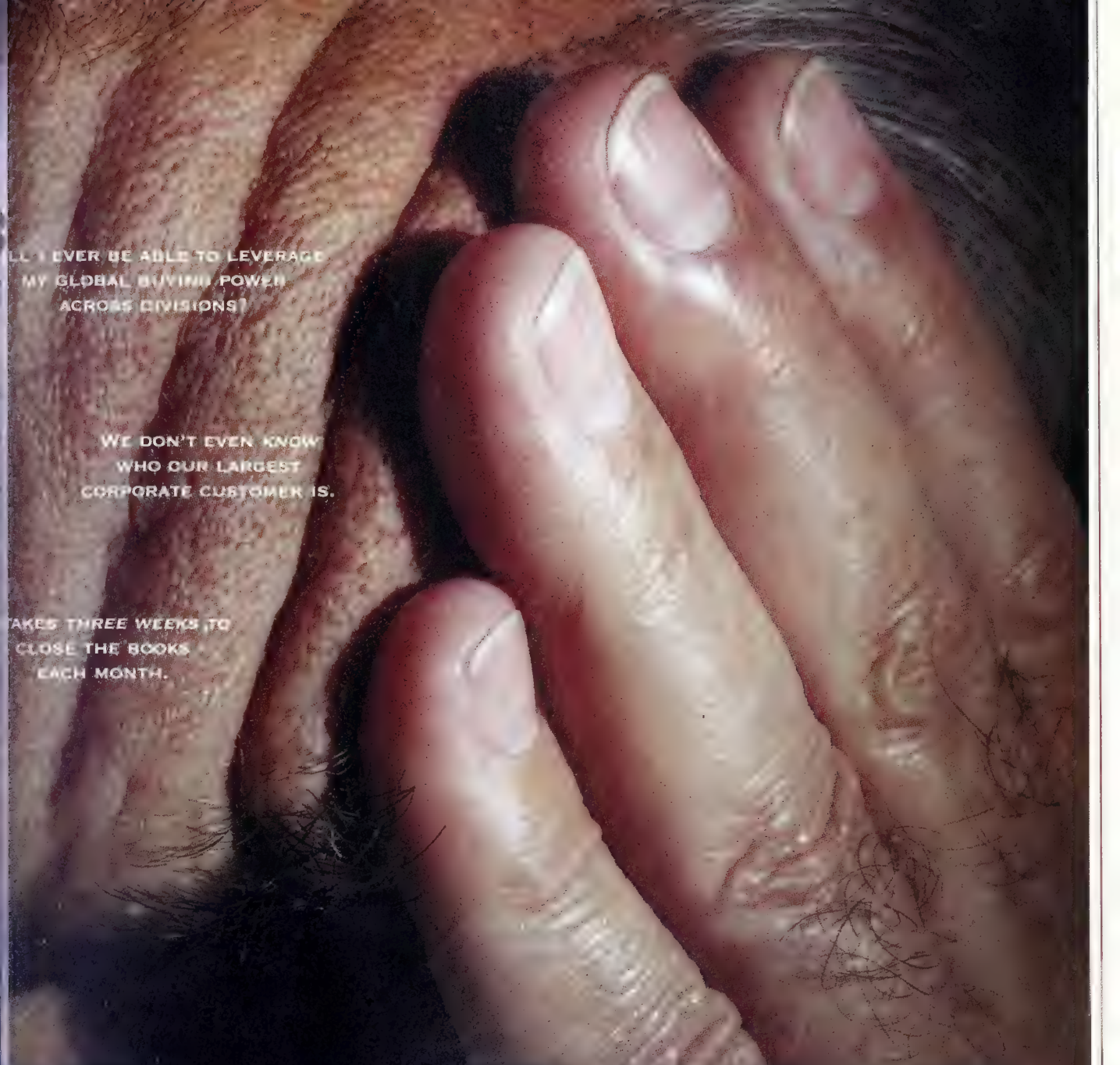
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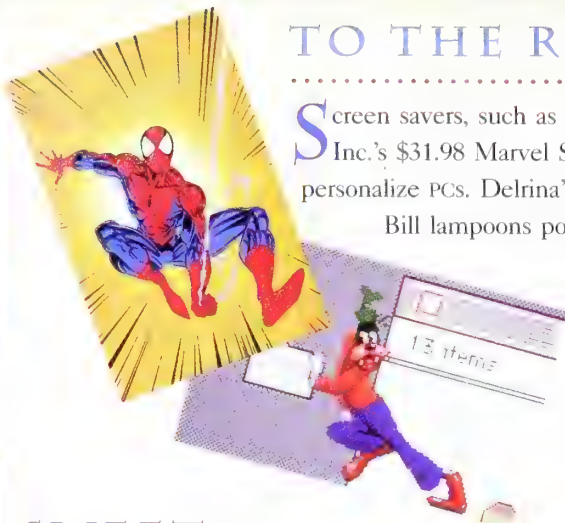
The Whole In One

Huron from Antares — A joint venture of Amdahl and EDS

THE

BEST

NEW PRODUCTS



TO THE RESCUE

Screen savers, such as Berkeley Systems Inc.'s \$31.98 Marvel Screen Posters, personalize PCs. Delrina's \$44.95 Opus 'n' Bill lampoons politics.

SWEET SLEDGE

Wilson Sporting Goods Co.'s new Sledge Hammer tennis racket has a fan-shaped design to widen the "sweet" spot. The price: \$319.99.



THIN THEATER

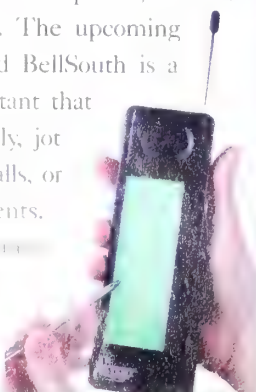
Mitsubishi Electronics America Inc.'s 45-inch Table Top Big Screen projection TV is slim enough to fit into a wall unit. The price: about \$3,000.

PRODUCTS TO WATCH



Check out the PowerPC, a fast, inexpensive microprocessor backed by IBM, Motorola, and

Apple Computer that may soon challenge Intel. Big volumes probably won't materialize until 1995, but look for the chip in Apple's Macs, IBM computers, and cable boxes next year. The upcoming Simon from IBM and BellSouth is a personal digital assistant that lets you fax wirelessly, jot down notes, make calls, or schedule appointments. Weighing just 1.8 ounces and the size of a cellular phone, it will sell for \$899.



BRIGHT HOURS

Light up with the Timex Corp. Indiglo. The entire watch face glows in the dark. It helped people trapped in the World Trade Center bombing. Price: \$15.95 to \$55.95.

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THE BEST MANAGERS

HERDING DEERE

Midwest manufacturing is back. Hans Becherer, chairman of Deere & Co., pushed his Moline (Ill.) company to use new manufacturing technology, involve employees, and shorten design cycles. The result? World-class profits of \$286 million in 1993.

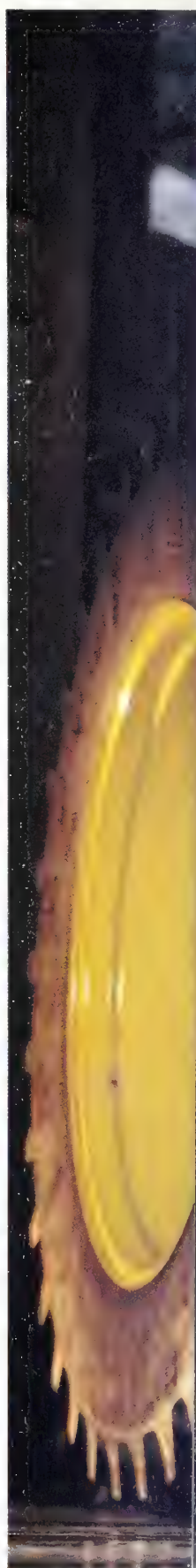


DIGITAL DAZZLE

Lewis E. Platt can't take all the credit for Hewlett-Packard Co.'s roaring comeback. But in his first year as chief executive, HP's sales shot up 24%, to \$20.3 billion. Look for Platt to plunge HP into the digital revolution in 1994 with snazzy new products such as video printers.

THE ENERGIZER

Talk about reenergizing a corporation! Since Lawrence A. Bossidy took over as CEO of AlliedSignal Inc. two years ago, he has emphasized leanness and focus. Net income is up 89% since then, and the stock has doubled, to about 75. With the economy cooking, look for Bossidy to switch from cutting to growing the company in 1994.





TOUGH TITAN

It takes strength and vision to build the new Information Superhighway. Just ask Raymond W. Smith, CEO of Bell Atlantic Corp. He remade a stodgy Bell corporate culture. Then Smith engineered the \$12 billion-plus deal for cable-TV giant Tele-Communications Inc. Now what?

XEROX' SHOOTING STAR

Here comes A. Barry Rand. As one of three executive vice-presidents at Xerox Corp., the 49-year-old Rand is in charge of the company's fastest-growing operations: personal-document products, engineering products, and business services. Rand's next challenge? Perhaps chief executive, as successor to Paul A. Allaire.



THE BEST MANAGERS



HOT LINES

Chief Executive Lars Ramqvist of L.M. Ericsson bet on mobile phones and won. In 1993, Stockholm-based Ericsson widened its world lead over American Telephone & Telegraph and Motorola in the market for wireless networks. Pretax profits will be up 130% on a 28% rise in revenues, to \$6.3 billion.



BOOTING UP COMPAQ

Eckhard Pfeiffer led Compaq Computer Corp. to the top in 1993. Since he took the helm in late 1991, Compaq's sales, market share, and profits have doubled. Now, Pfeiffer is aiming for the home-computer market.

SEARS' SAVIOR

Arthur Martinez, chairman and chief executive of Sears Merchandise Group, is putting the sizzle back into Sears' retailing. Martinez, 54, cut costs, killed the catalog, and boosted women's fashions. Splashy new ads brought customers home.

OUTER LIMITS

Kay Koplovitz knows the value of patience. The president of USA Network launched her newest cable network, the Sci-Fi Channel, and slowly built it to 15 million subscribers. Next: Sci-Fi for Europe and Latin America.



NICE RIDE

What a U-turn! Chrysler President Robert A. Lutz has shepherded a string of hot products to market: the Dodge Viper, the Dodge Ram pickup, the LH sedans, and the Neon. Meanwhile, Chairman and CEO Robert J. Eaton managed the financials and all the rest. Chrysler Corp. has \$5 billion in the bank, and earnings per car are tops in the industry.



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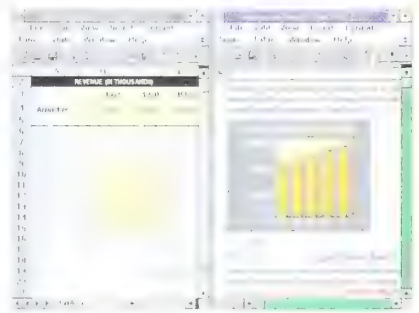
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THE BEST MANAGERS



OFFSHORE TREASURES

In 1993, U.S. investors discovered emerging markets. Chairman Richard B. Fisher positioned Morgan Stanley & Co. to reap almost half its profits from Shanghai to Singapore to São Paulo.

STRONG SILICON

Chief Executive Edward R. McCracken has transformed Silicon Graphics Inc. from a graphics workstation supplier into a global computer maker. In fiscal 1993, SGI's sales jumped 26%, to \$1.1 billion. Next: the Information Superhighway.



FUN WITH FUNDS

Jeff Vinik took over Fidelity's Magellan Fund and tripled the Standard & Poor's 500-stock index performance with a dazzling 22% return. Vinik, 34, sold off consumer stocks and piled into technology, energy, and foreign equities. Reverse strategy for 1994?



MANAGERS TO WATCH

Keep an eye on Diana D. Brooks, who just took over as president and chief executive of Sotheby's Holdings Inc. The 43-year-old executive is riding a rebound in the auction business. Louis V. Gerstner Jr. had nine months to learn the top job at troubled IBM. The coming year will show whether or not Big Blue's boss can deliver. The stock market is betting "yes." George M.C. Fisher quit his job as chief executive officer of Motorola Inc. to take the helm of struggling Eastman Kodak Co. He was a whiz at Motorola. Can he succeed a second time in a totally different industry?



BROOKS: HOT AUCTIONS



GERSTNER: CRUNCH TIME



FISHER: NEW CHALLENGE

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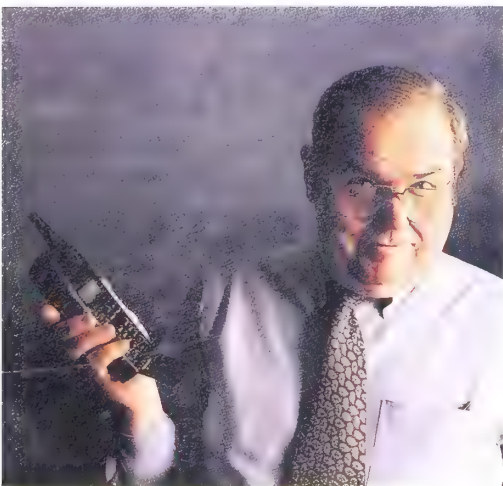
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THE BEST ENTREPRENEURS



NO WIRES, MA

It may sound crazy to challenge GTE Inc. and McCaw Cellular Communications Inc., but Brian D. McAuley, chief executive of Nextel Communications Inc. did. He bought taxi and truck radio-dispatch systems to build his own wireless phone system. The first city on-line: Los Angeles.

ROAD WORK

Gordon Y. S. Wu is Hong Kong's biggest blue-chip investor in China. As managing director of Hopewell Holdings Ltd., the Princeton University-educated Wu, 58, hopes to complete a superhighway linking Hong Kong and Guangzhou in 1994.



IPO WHIZ

He started by investing in and helping create Blockbuster Entertainment Corp. Then Scott A. Beck, 35, did the same with Boston Chicken Inc. Its initial public offering was a hit.



WONDER DRUGS

In 1972, Jane C. I. Hirsh started her own generic drugmaker—so she could bring her three kids to work. Revenues at Copley Pharmaceuticals Inc. hit \$90 million in 1993, and in November, Hirsh sold a 51% stake to Hoechst Celanese Corp. for an eye-popping \$546 million. The 51-year-old Hirsh remains as chief executive.

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HIGHLIGHTS OF THE YEAR



TRADE PACT

It was close and it was bitter, but President Clinton won the day on NAFTA. Unions are dismayed, but free-traders—and Mexican President Salinas—are not.

PAPER CHASE

Ex-GMer J. Ignacio López de Arriortúa jumps to Volkswagen only to stumble over a bizarre case of missing documents.



CEO SHUFFLE

Bloodbaths abounded in corporate boardrooms in 1993. Boards of directors roused themselves and chopped heads to boost profits. IBM's John F. Akers was dumped for former RJRer Louis V. Gerstner Jr., and Eastman Kodak Co.'s Kay R. Whitmore was let go for Motorola Inc.'s ex-chief exec, George M.C. Fisher. So now...?



A NEW NO. 1

Ford's Taurus bumps Honda's Accord out of first place. How's the new Accord model selling?



HIGHLIGHTS OF THE YEAR

NIGHT MOVES

Wisecracking David Letterman jumped from NBC to CBS—and grabbed the late-night lead from Jay Leno.



APPLE TOSS

Seeing new wireless horizons, John Sculley leaves Apple Computer Inc. for Spectrum Information Technologies Inc. O. K., so he was encouraged to go.

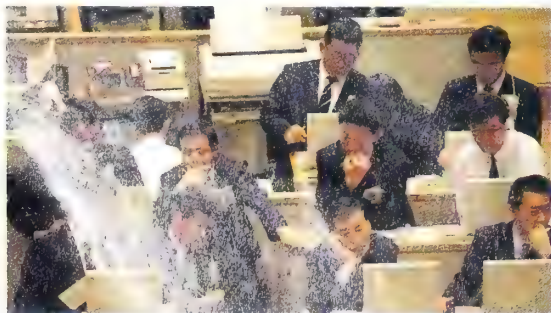


LABOR PAINS

Germany awoke to find its heralded social contract pricing it out of world markets. Losing lots of expensive benefits is making workers testy.

TOKYO'S WOES

Japan as No. 2? Its economy got pummeled, its corporations lost fortunes, its banks bled, and its stock market got whiplashed.



FINALLY, A GATT

It was an O. K. deal, and free trade won big in 1993 despite fierce protectionist winds. The U. S. economy now moves into 1994 with strength.



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TODAY'S FUND STARS MAY CRASH AND BURN TOMORROW

Mutual-fund investors are famous for piling the most money into the top-performing funds. This is an especially tempting blunder to make in January, when 1993 performance tables are hot off the presses and many people include boosting portfolio returns on their list of New Year's resolutions.

But if the mouthwatering returns of a gold, high-tech, or Pacific Basin fund have you ready to take a bite, think again. Not only is it foolhardy to buy a fund looking only at performance—but many of the investment areas that shone in 1993 are not as well positioned for 1994. If you were lucky enough to make a play in one of the top-performing sector funds, you may want to take your profits and run.

The U.S. stock market is at record levels and entering the fourth year of a bull run, so you may think its future prospects look dicey. But many analysts think the bull still has room to run. Emerging markets are charging ahead, but their average valuations are even more inflated than the U.S. market's. While it is unlikely that all last year's top sectors will flounder this year, a case can be made for why each of them could crash and burn in '94. Market trends can take several years to play out, but if you buy a top-ranked fund, don't count on it providing the same stellar return. The same might apply to an individual stock if it rode up in price along with a sector.

In fact, year after year

studies performed by Republic Asset Management, M. D. Hirsch Div., have found that at least half of the top 10 performing funds drop to the bottom of the mutual-fund universe in one or two years. "There are exceptions to the rule, but in general there is a correlation between top 10 one year and bottom 10 the next year," says Michael Hirsch, vice-chairman of Republic and manager of its FundTrust family of mutual funds.

Much of this phenomenon stems from the behavior of

sector funds, since every year the market savors some sectors and chews up others. That bipolar performance "creates the temptation to buy at the top and sell at the bottom," says Jon Fossel, chairman of Oppenheimer Management Corp. **FAMOUSLY FICKLE.** This year, with gold funds making up half the list of the top 50 funds, the case against buying top performers is especially clear. Precious-metals funds as a group have averaged 79% for the year. But gold,

which has led the charge, is a notoriously fickle investment and is rebounding from seven lows. The No.1-ranked Lexington Strategic Investment was up 245% through December. It was also the worst-performing fund in 1992, when it fell 61%. In fact, people who bought Lexington Strategic in 1989 have still recouped only half of their initial investment despite this year's gains.

The future performance of gold and other important sectors of the market hinges on whether inflation will be tamed by growth in the economy and, if so, whether interest rates will spike upward. Gold, which is most often used as a hedge against inflation, is



continue to rise in price, but other sectors that performed well in 1993 would be leveled as a result of higher rates. "If they raise short-term rates, the dike will begin to break," says Tracy Herrick, chief investment strategist for Jefferies & Co., a brokerage firm in Los Angeles.

Utility funds already demonstrated they would plummet if interest rates rise. They lost an average of 4.4% in November alone when long-term rates moved up a mere 1%. These funds had performed well for much of the year and still averaged a modest 14% total return through Dec. 20—not bad for a sector chosen most often for stability. They gained popularity this year for their high yields, but investors may pull back quickly if rates on less key fixed-income vehicles become more attractive.

STUBBERS. Financial stocks have enjoyed a 2½ year bull market during the low-interest-rate environment and will not be in trouble if interest rates spike. In an improving economy, "money is coming out of the financial area and into the real stuff," says Muel Murphy, editor of the *Overpriced Stock Service* newsletter, which recommends that investors short general brokerage and bank stocks. "Interest rates go higher because the real economy starts to recover and banks money out of the financial economy, which is where people park their money when there is no place else to put it." In 1993, funds investing in financial stocks gained 15.5% through Dec. 20. Most economists predict that interest rates will stay at their current levels, and they do rise, it won't be by much. However, "you need to be aware that there are interest-rate-sensitive portions of the marketplace," says Richard Wagner, a Denver financial planner and president of the Institute of Certified Financial Planners.

Technology was the second-best sector fund group in 1993, with a 21% average re-

turn through Dec. 20. Professionally managed funds have done well picking and choosing among stocks in this risky and often overpriced sector, but there is reason to be wary. The most promising interactive-media plays, for example, have gotten very expensive, and analysts are starting to question the claim that they will revolu-

tory. In 1993, that promise was more than fulfilled as both Pacific region funds and the few open-end funds investing in Latin America returned an average of 52% through Dec. 20. But some investment pros are starting to wonder if growth in these regions can keep up its torrid pace. "Some of the emerging markets on a short-

concerned that individuals venturing into international funds don't understand the added element of currency risk. Although growth will be faster in foreign markets than in the U.S. over the next few years, "go into international with your eyes open," says Joel Isaacson, a New York financial planner.

REFORM FALLOUT. While you shouldn't expect the top performers of '93 to reap the same gains in '94, you also shouldn't count on last year's laggards to improve much. Health care was the worst-performing sector in 1993, with specialty funds returning an average of only 0.1% for the year. But analysts say there is more fallout from health-care reform to come, and picking winners out of this troubled group will be difficult. Consumer staples, such as food, beverage, tobacco and other noncyclical stocks, also did poorly during 1993. However, as gold funds show, "if you want something to brag about," you might get your wish by picking the loser of the year before, says Wagner.

Norman Fosback, editor of *Mutual Fund Forecaster*, predicts returns for mutual funds in general will be flat next year, with Standard & Poor's 500-stock index earning only 3%. Some funds will post moderate gains at best, while many diversified funds will actually lose ground in 1994, he says, so "selectivity will be more important than ever." Investors should do more than look at performance when making a purchase decision—they should "do their homework on the sectors they are interested in and do some fundamental analysis to make sure that area has good growth potential."

But the more research you do on different sectors, the more conflicting opinions you'll find. Even the most astute investment professionals have to go out on a limb when they recommend a sector play. In the end, it's up to you to make the call. If it's the top-performing sector of 1993 you're considering, Isaacson says, "just be more cautious." *Amey Stone*

SECTORS THAT MIGHT DEFLATE IN THE NEW YEAR

WHY IT WAS HOT IN '93

WHY IT MIGHT COOL IN '94

FINANCIAL

'93 Total Return* 15.5%

Brokerages have had a long bull run catering to stock-hungry investors, and banks have reaped gains on interest-rate spreads

As the economy improves people may spend on a new home or other hard assets instead of financial investments

NATURAL RESOURCES

18%

Hopes that an improved world economy would create new demand led to healthy gains

A worldwide glut may drive down prices, regardless of any increase in demand

PACIFIC REGION, LATIN AMERICA

52%

Funds created new access to dynamic emerging markets and investors plunged in on the promise that rapid development would spur them

These small markets are very volatile and illiquid and may not be able to keep up the rapid pace plus political tensions could flare up

PRECIOUS METALS

79%

Gold stocks rebounded on talk that inflation was making a comeback

The inflation scare is largely over, and gold is always a risky bet

TECHNOLOGY

21%

Eager investors looking for the company of the future bought some of these stocks feverishly

Some stocks are overvalued, and new technologies such as interactive media have not been proven

UTILITIES

14%

High yields plus excitement in the telephone industry fueled increase

Stocks are sensitive to interest rates because investors may return to fixed-income vehicles if rates rise

*Average of funds in group through Dec. 20

SOURCE: MORNINGSTAR INC., BUSINESS WEEK

tionize home entertainment. "Technology has done well for the past year, but that's a nasty market to be participating in," says Wagner.

The promise of stellar returns in the emerging-markets area has also lured many investors into riskier-than-usual terri-

term basis look frothy," says Fossel. "There is bound to be one that will stub its toe." He's particularly nervous about funds that focus on the Pacific Rim. But even if 1994 is choppy, he advises investors to ride out the waves for long-term gains.

Financial advisers are also

Mortgages

MISSED OUT ON REFI MADNESS? DON'T DESPAIR

Mortgage bankers may be crying in their soup at the prospect of a decline in refinancings, but borrowers should be cheering. With fixed costs to cover and fewer new loans to do it with, mortgage bankers are starting to fall over one another wooing those customers that remain. "The next six to nine months will be very good times for consumers. There's going to be a bit of a price war," says Ivan Kaufman, president and chief executive officer of Arbor National Mortgage. The Uniondale (N.Y.) lender advertises no-point, no-closing-cost options.

Since the beginning of 1992, average rates on 30-year, fixed mortgages have fallen, from 8.24% to as low as 6.74% in October, according to the Federal Home Loan Mortgage Corp. That slide prompted a massive wave of refinancings that now is subsiding, even as 30-year rates have crept back up to around 7.2%. With lenders loath to lose a large chunk of their refinancing income, they are offering attractive options to borrowers still in need of mortgage money.

To take advantage of the competition, shop around—a lot. Many mortgage bankers cover large swaths of the country, so you may find a regional lender that offers lower rates or requires a smaller percentage down from new home buyers than local



outfits. And remember the extras. Some lenders may be willing to pay part of the bank's appraisal cost or absorb legal fees.

REFERRALS. Some mortgage bankers are even setting up systems to make it easier for consumers to get in touch with them directly. Countrywide Credit Industries has an arrangement with Prodigy, the on-line computer service, that allows customers to find out what kind of loan they

can get and how large the payment might be, then apply electronically. If you have special needs—your credit record is bad or you want to find a mortgage quickly—consider using a mortgage broker. Larger brokers "have access to funds that a customer may not be able to get to," says Paul Havenmann, vice-president at HSH Associates, a Butte (N.J.) publisher of mortgage information. But using a broker means you will probably pay a fee of a point or more, which might be handed over upfront or calculated into the loan rate.

Consumers and businesses have had to contend with lenders' extreme caution and stringent credit criteria in the past few years. Now, at least where mortgages are concerned, the tables seem to be turning. *Kelley Hollister*

'Hong Kong Stocks Set New High." Investors motivated by recent financial headlines out of East Asia take note: You may be able to profit by buying warrants on the American Stock Exchange pegged to a broad index of companies whose shares trade on the Hong Kong Stock Exchange.

On Oct. 26, PaineWebber launched 5 million put and call warrants on the new Amex Hong Kong 30 Index, the first time investors could publicly trade derivatives in the U.S. that closely mirror the performance of Hong Kong's sizzling stock market. Not long after, Bear Stearns issued put and call warrants, and Morgan Stanley, Salomon, and Merrill Lynch unveiled call warrants only. In all, 14.2 million Hong Kong warrants have been issued, and early trading has been heavy.

VOLATILE. Established in June, the Hong Kong index reflects companies in finance, utilities, airlines, and other industries. The index is calculated in U.S. dollars at a fixed ex-

Smart Money

A RISKY RIDE ON THE HONG KONG BULL

change rate. Among the larger companies in the basket: China Light & Power, Hong Kong Telecommunications, and Jardine Matheson Holdings. (Individuals have been able to invest in other Amex index warrants tagged to foreign markets, including those in Tokyo, Paris, and London.)

Trading in the warrants is

much like trading in options—and is not for the fainthearted. In fact, the Amex requires the Hong Kong warrants be sold only to those investors whose accounts have been approved for options trading. The volatile index is capable of moving 3% in either direction on any day. Recently the index reached 538.88, a 97% in-

crease since the year's start.

PaineWebber's calls and puts have a strike level of 440.09 and are the first to expire (Oct. 27, 1995.) Morgan Stanley's warrants are the last to run out (Nov. 4, 1996) about eight months before Beijing reclaims the British colony. Their strike level is set at 485.68. Investors can exercise the warrants at any time prior to their expiration dates. To make money, the index must be above the strike level for calls and below it for puts. Individuals who reckon Hong Kong's bull market will rage on are candidates for call warrants; the less sanguine may opt for the puts.

By trading in Hong Kong warrants, U.S. investors are ultimately gaining exposure to the booming yet potentially unstable People's Republic. If China continues to encourage foreign investment and permit private enterprise, Hong Kong's stocks should hold their own. But if China's leaders crack down, those stocks, and the warrants, may have a very brittle future. *Edward B.*

A TASTE OF HONG KONG

CALL WARRANTS

	Recent price	Strike index*	Expiration
MERRILL LYNCH	5%	528.64	12/15/95
MORGAN STANLEY	5%	485.68	11/04/96
SALOMON	11%	450.75	11/03/95

PUT WARRANTS

BEAR STEARNS	4%	513.94	06/10/96
PAINEWEBBER	4%	440.09	10/27/95

* As of Dec. 21, the Amex Hong Kong 30 Index stood at 538.88.

SOURCE: AMERICAN STOCK EXCHANGE

capability: executive programs

WALKING THE TECHNOLOGY TIGHTROPE



Illustration by John Hersey As seen in BusinessWeek, January 11, 1993 Issue

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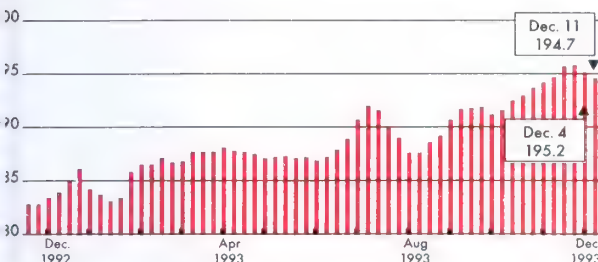
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BusinessWeek Index

PRODUCTION

Change from last week: -0.3%
Change from last year: 5.8%

1967=100 (four-week moving average)

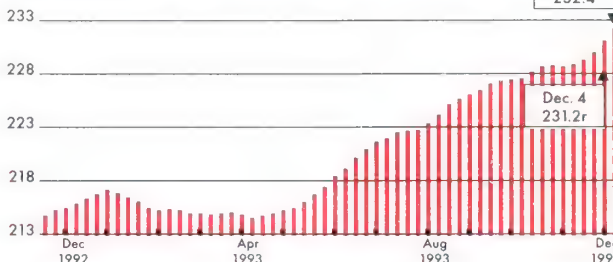


The production index fell slightly during the week ended Dec. 11. On a seasonally adjusted basis, output levels of coal, paperboard, paper, lumber, and trucks as well as rail-freight traffic increased. Auto, electric power, and crude-oil refining declined, while steel output was unchanged. Before calculation of the four-week moving average, the index stood at 193.6, up from 193.2 in the previous week, but down from the revised reading of 194.1 the week of Nov. 27.

BW production index copyright 1994 by McGraw-Hill Inc.

LEADING

Change from last week: 0.5%
Change from last year: 7.6%



The leading index increased during the week ended Dec. 11, as all the available indicators signaled a pickup in economic activity. Higher stock prices, lower bond yields, improved growth rates for M2, real estate loans, and materials prices, as well as a sharp drop in the number of large-business failures, were all positive economic signs. Before calculation of the four-week moving average, the index rose to 235.9, from 232.9.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
EL (12/18) thous. of net tons	1,847	1,850#	10.5
OS (12/18) units	145,354	149,928r#	97.4
CKS (12/18) units	119,449	116,981r#	13.8
CTRIC POWER (12/18) millions of kilowatt-hours	59,738	57,784#	0.1
IDE-OIL REFINING (12/18) thous. of bbl./day	13,624	13,693#	2.8
IL (12/11) thous. of net tons	19,524#	18,207	-1.1
ERBOARD (12/11) thous. of tons	827.1#	822.2r	4.7
ER (12/11) thous. of tons	812.0#	802.0r	2.9
ABER (12/11) millions of ft.	483.7#	467.2	-1.3
L FREIGHT (12/11) billions of ton-miles	22.9#	22.8	4.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SPPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YANEESE YEN (12/22)	110	110	124
MAN MARK (12/22)	1.70	1.71	1.59
FISH POUND (12/22)	1.49	1.48	1.53
NCH FRANC (12/22)	5.80	5.86	5.43
ADIAN DOLLAR (12/22)	1.34	1.33	1.26
SS FRANC (12/22)	1.44	1.47	1.44
ICAN PESO (12/22) ³	3.114	3.113	3.117

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
.D (12/22) \$/troy oz.	385.650	385.600	15.8
EL SCRAP (12/21) #1 heavy, \$/ton	139.00	139.00	46.3
IDSTUFFS (12/21) index, 1967=100	219.4	221.7	10.4
PPER (12/18) ¢/lb.	84.5	82.0	-18.4
MINUM (12/18) ¢/lb.	52.5	52.3	-7.1
EAT (12/18) #2 hard, \$/bu.	4.20	3.93	11.7
TON (12/18) strict low middling 1-1/16 in., ¢/lb.	60.04	69.95	16.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

all data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/17) S&P 500	464.06	465.52	6.7
CORPORATE BOND YIELD, Aaa (12/17)	6.97%	6.86%	-12.8
INDUSTRIAL MATERIALS PRICES (12/17)	93.9	93.5	-3.0
BUSINESS FAILURES (12/10)	293	360	-18.2
REAL ESTATE LOANS (12/8) billions	\$412.7	\$410.6r	1.6
MONEY SUPPLY, M2 (12/6) billions	\$3,524.6	\$3,513.6r	1.7
INITIAL CLAIMS, UNEMPLOYMENT (12/4) thous.	337	322	-3.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
PERSONAL INCOME (Nov.) annual rate, billions	\$5,513.7	\$5,479.5	5.3
CONSUMER SPENDING (Nov.) billions	\$4,487.6	\$4,468.7	5.6
ORDERS FOR DURABLE GOODS: MFG. (Nov.) billions	\$139.4	\$136.6r	13.2
BUDGET SURPLUS OR DEFICIT (-) (Nov.) millions	-\$38,381	-\$45,422r	17.3

Sources: Commerce Dept., Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/6)	\$1,129.6	\$1,127.2r	10.5
BANKS' BUSINESS LOANS (12/8)	271.2	273.3r	-2.5
FREE RESERVES (12/8)	1,075	1,025r	44.1
NONFINANCIAL COMMERCIAL PAPER (12/8)	156.0	159.4	4.8

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (12/21)	2.97%	2.95%	2.94%
PRIME (12/22)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (12/21)	3.31	3.35	3.57
CERTIFICATES OF DEPOSIT 3-MONTH (12/22)	3.21	3.25	3.35
EURODOLLAR 3-MONTH (12/17)	3.21	3.33	3.48

Sources: Federal Reserve Board, First Boston

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

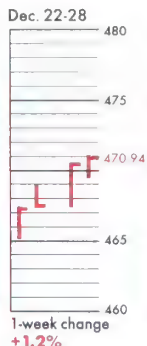
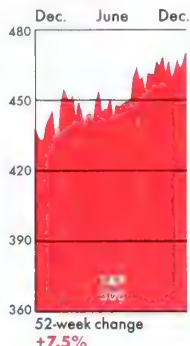
A Abigail Adams National Bank 42 A.C. Nielsen 101 Advanced Micro Devices 83 Aetna Life & Casualty 106 AgResource 88 Airco Gas & Gear 100 Aisan Industries 52 Aldus 82 Alex. Brown & Sons 99 AlliedSignal 122 Alvey 73 American Airlines 60, 98 American Cyanamid 76 American Electric Power 100 American Express 57, 107 America West Airlines 48 AnnTaylor Stores 46 Apple Computer 8, 81, 82, 83, 112, 132 Applebee's 99 Arbor National Mortgage 138 Arco Chemical 76 Asahi Chemical 52 AT&T 8, 43, 84, 122	Challenger, Gray & Christmas 60 Chase Manhattan 103 Chemical Banking 103 Chevron 87, 96 China Light & Power 138 Chisei 52 Choice Hotels 99 Chrysler 57, 71, 112, 122, 146 CIGNA 106 Cincinnati Milacron 60, 73 Cirrus Logic 83 Citibank 55 Citicorp 103 Coca-Cola 40 Colgate-Palmolive 40 Columbia Healthcare 97 Columbia Pictures 101 Compaq Computer 81, 112, 122 Computer Associates International 82 Continental Bank 60, 78 Continental Conveyor & Equipment 60 Cooper Industries 73 Coopers & Lybrand 10 Copley Pharmaceuticals 130 Costco 95 Countrywide Credit Industries 138 CPC International 78 Cub Foods Stores 96 Cyrix 83	B Bankers Trust 103 Baxter International 97 BBDO Marketing 40 BCE 101 Bear Stearns 85, 138 Bearings 60, 96 Bell Atlantic 84, 101, 122, 132 BellSouth 84, 112 Bethlehem Steel 48, 74 Beverly Enterprises 97 Birmingham Steel 74 Black & Decker 112 Blackbuster 41, 101, 130 Bloomingdale's 46 Boeing 60 Bombay 95 Booz Allen & Hamilton 85 Borden 48, 57 Borland International 82 Boston Chicken 99, 130 Boston Consulting Group 85 British Telecommunications 84 Buffets 99 Burger King 99	C California Pizza Kitchen 99 Cambridge Energy Research 30 Campbell Soup 62, 78 Capital Cities/ABC 101 Carlson Cos. 62 Carolco Pictures 101 Carter Hawley Hale 46 Casio 52 Caterpillar 146 Centerior Energy 100	D Daimler Benz 146 Dataquest 82 Davenport 57 Dean Foods 78 Dean Witter 90, 107 Deere 122 Dell Computer 8, 81 Delta Air Lines 55, 98 Diamond Shamrock 87 Digital Equipment 81 Donaldson, Lufkin & Jenrette 66, 100, 107 DRI/McGraw-Hill 62, 95 Dreyfus 103 Dun & Bradstreet Software 82 DuPont 52, 76, 96	E Eastman Kodak 8, 51, 57, 76, 122, 132 El Al 35 Electric Industries 52 Equitable Life 107 Ericsson (L.M.) 122 E-Systems 72 Ethyl 76 Ex. on 30	F Fadal Engineering 73 Fahnestock 57 Federated Department Stores 95 Filene's Basement 46 First Bank 103	G Galen Health Care 97 GE 60, 101, 107 General Dynamics 72 General Mills 99 GM 8, 44, 52, 71, 146 Goldman Sachs 72 Government Securities Corp. of Texas 10 Grand Metropolitan 78 Grubb & Ellis 108 GTE 84, 130 Gupta 82	H HCA-Hospital Corp. of America 97 Hershey Foods 78 Hewlett-Packard 81, 122, 122 Hidaka Seiki 52 Hitachi 52, 146 Hoescht Celanese 130 Home Shopping Network 95 Honda 52, 71 Hong Kong Telecommunications 138 Hopewell Savings 130 Hospitality Franchise 99 Hovnanian Enterprises 108 HSH Associates 138 Hughes Aircraft 72 Hyster-Yale Materials 73	I IBM 52, 81, 82, 83, 112, 122, 132 Informix Software 82 Ingersoll Dresser Pump 73 Inland 74 Integrated Circuit 83 Integrated Health Services 97 Intel 60, 81, 83, 112, 146 International Data 81, 82 Ispat Group 48 Isuzu 52 ITT Hartford 106	J Jardine Matheson 138 J.C. Penny 46, 95 J.D. Power & Associates 71 Jefferies 136 Johnson & Johnson 40	K Keystone Financial 103 KFC 99 Kidder Peabody 46, 107 Kimberly Quality Care 97 Kiwi International Air Lines 98 Kmart 46, 60, 62, 95 Komatsu 146 Korea Power 60 KPMG Peat Marwick 97 Kraft General Foods 73	L Legg Mason Wood Walker 97 Lehman Brothers 60, 62, 107 Leventhal 97 Lexington Strategic Investments 136 LG&E Energy 100 Ling Resources 81 Link Digital Equipment 82 Litton Industries 60, 72, 73 Lockheed 72 Long Island Lighting 87 Longview Fiber 90 Loral 72 Lotus Development 82 Louisiana-Pacific 90 LTV 72, 74 Lufthansa 98	M Macy (R.H.) 95 Marion Merrell Dow 85 Mars 40 Martin Marietta 72 Massachusetts Mutual Life Insurance 106 Matsushita Electric Industrial 52, 101, 146 Max Clubs 96 Mazda 48 McCraw Cellular 8, 84, 130 McDonald's 60, 62, 99 McDonnell Douglas 72 McGraw-Hill 36, 84 MCI 43 McKesson 85, 96 Mead 90 Media Vision 112 Merck 85 Merrill Lynch 62, 107, 138 Merry-Go-Round Enterprises 95 Metropolitan Life 48, 106 Miami Medical Centers 62 Micron Technology 83 Microsoft 8, 82, 101 Minolta 52 Mitsubishi 52, 146 Mitsubishi Electronics 112 Mitsubishi Heavy Industries 73 MMS International 36 Mobil 30, 87 Morgan (J.P.) 48, 103 Morgan Stanley 60, 98, 107, 122, 138 Motorola 44, 52, 81, 83, 112, 122, 132, 146 Mylan Laboratories 85	N Nashua 44 National Semiconductor 83 NationsBank 103 NatWest Securities 101 NBC 44, 101 NEC 52, 146 New England Electric System 100 News Corp. 101 Nextel Communications 130 Nissan 71 Nomura Securities 60 North Star Steel 74 Northern Business Information 84 Northrop 72 Nucor 74 Nynex 41, 84	O Office Depot 96 Office Max 96 Okuma America 73 Oppenheimer 87, 136 Oracle 82 Oryx Energy 87 Otis 62 PaineWebber 41, 74, 101, 107, 138 Paramount Communications 8, 41, 84, 101 Paul Kagan Associates 101 Peoplesoft 82 PepsiCo 40, 99 Pfizer 85 Philip Morris 60, 78, 132 Pier 1 60, 95 Pioneer Electronic 52, 146 Piper Jaffrey 107 Plum Creek Timber 90 Pope & Talbot 90 Potlatch 90 Powersoft 82 Price 95 Primerica 107 Procter & Gamble 40 Prudential Securities 78, 106	P Quaker Oats 78 Quantum Realty Trust 8 Quantum Restaurant Group 99 QVC Network 41, 95, 132	R Ralston Purina 78 Redbrook Technologies 81 Reeds Jewelers 57 Regional Financial 66 Remington Arms 76 Reno Air 98 Republic Asset Management 136 Ricoh 52 RJR Nabisco 8, 40, 60, 78, 132 Royal Dutch/Shell 30 Rugby-Darby Group 85	S Safe Brands 76 Saks Fifth Avenue 46, 95 Salomon Brothers 23, 71, 74, 85, 106, 138 Sanford C. Bernstein 97, 107 Sara Lee 78 SatCon Technology 57 Sears 57, 62, 95, 122 S.G. Warburg 41, 76 Sharp 112 Shawmut Bank 42 Silicon Graphics 122 Smith Barney 107 SmithKline Beecham 85 Software Publishing 82 Software Toolworks 112 Sony 52, 101 Southwest Airlines 8, 60, 98 Southwestern Bell Telephone 43 Spiegel 95 Sprint 84 Standard Chartered 55 Staples 96	T Strombecker 60 Sun Microsystems 52, 8, 146 Supervalve 60, 96 Suzuki 52 Sybase 82 Symantec 82	U Taiyo Manufacturing 52 Talbots 95 Tandy 95 Technomic 99 Tele-Communications 8, 101, 122 Tenneco 57, 72 Terex 73 Texas Utilities 100 The Limited 95 Tiffany's 46 Time Warner 84, 95 Timex 112 Tokai Rika 52 Tokyo Electric Power 60 Toshiba 52 Toyota 52 Toys 'R' Us 62 Travelers 106 Triton Energy 87 TRW 51 TWA 55	V Valujet 98 Valu-Rite 96 Veritas Capital 48 Viacom 41 VLSI Research 60, 83 Volvo 8 VWR Corp. 60, 96	W Wal-Mart 60, 95, 99 Walker Interactive Systems 82 Walt Disney 101 Warner-Lambert 85 Wendy's 99 Western Atlas 60, 72, 74 Westvaco 90 Wetterau 96 Weyerhaeuser 90 Wilksky Gruen 101 Wilson Sporting Goods 112 WordPerfect 82	X Xerox 44, 51, 60, 122	Z Zale 46, 57 Zilog 83
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Investment Figures of the Week

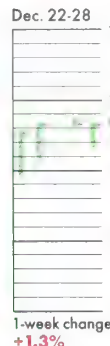
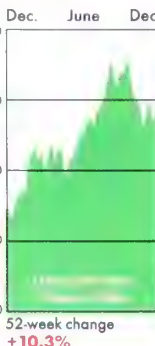
MARKET COMMENTARY

round the world. The Dow industrials reached for the market, hitting a record 8 on Dec. 27. The Standard & Poor's 500 climbed to a new high. Over the holidays, British and German stock markets moved to new highs, as investors bet Europe would shake off recession in 1994. On the other side of the globe, Hong Kong ran up 16% in just ten days. The Japanese stock market ended the year at a level higher than where it started.

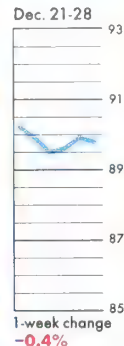
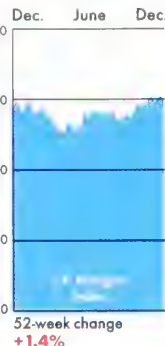
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	52-week
DOW JONES INDUSTRIALS	3793.8	1.3	14.6
STANDARD & POOR'S 500 (S&P MidCap Index)	177.8	2.1	11.9
STANDARD & POOR'S 500 (Russell 2000)	253.7	1.3	17.0
STANDARD & POOR'S 500 (Russell 3000)	271.2	1.3	8.4

INTERNATIONAL STOCKS	Latest	% change (local currency) Week	52-week
DOW JONES WORLD (FINANCIAL TIMES 100)	3412.3	2.1	19.8
NIKKEI INDEX	17,131.2	-1.1	-0.9
TSE COMPOSITE	4288.9	1.8	29.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.12%	3.15%	3.25%
30-YEAR TREASURY BOND YIELD	6.24%	6.31%	7.36%
S&P 500 DIVIDEND YIELD	2.36%	2.66%	2.82%
S&P 500 PRICE/EARNINGS RATIO	23.1	22.7	24.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	458.6	457.8	Positive
Stocks above 26-week moving average	46.5%	47.3%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.42	Neutral
Insider sentiment: Vickers sell/buy ratio	1.75	1.76	Positive

INDUSTRY GROUPS

WEEK LEADERS	4-week	% change 52-week
HOSPITAL MANAGEMENT	15.1	42.7
RETAILERS	12.2	12.1
RETAILS AND MOTELS	12.1	80.9
MACHINE TOOLS	9.6	21.0
HOUSEHOLD ELECTRONICS	8.5	28.1

WEEK LAGGARDS	4-week	% change 52-week
SPECIALTY APPAREL RETAILERS	-12.3	-19.1
GENERAL MERCHANDISE CHAINS	-11.7	-8.5
EXPLORATION AND PRODUCTION	-6.1	3.5
PERSONAL LOANS	-5.6	14.3
URBAN GAS DISTRIBUTION	-5.5	14.2

Strongest stock in group	4-week	% change 52-week	Price
NATIONAL MEDICAL ENTERPRISES	24.7	14.4	137 1/2
CYPRUS AMAX MINERALS	18.4	-13.1	25 3/4
HILTON HOTELS	26.0	33.3	57
CINCINNATI MILACRON	9.9	43.5	22 1/4
LORAL	16.5	66.1	38

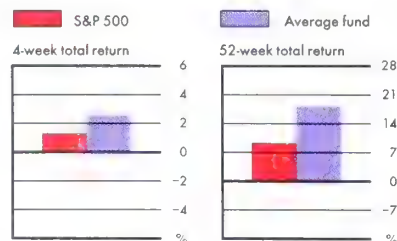
Weakest stock in group	4-week	% change 52-week	Price
LIMITED	-26.6	-39.7	16 7/8
WAL-MART STORES	-13.8	-20.6	25 3/4
ORYX ENERGY	-14.9	-11.0	17 1/8
HOUSEHOLD INTERNATIONAL	-9.8	12.1	32 1/2
ENSERCH	-15.9	7.6	15 7/8

MUTUAL FUNDS

LEADERS	4-week total return	%
ORGAN STANLEY INSTITUTIONAL ASIAN EQUITY	15.7	
TRILL LYNCH DRAGON A	15.3	
DEAN WITTER PACIFIC GROWTH	14.9	

LAGGARDS	4-week total return	%
FORUM INVESTORS STOCK	-18.1	
STATE STREET RESEARCH GLOBAL ENERGY A	-10.0	
SOCIETY DIVERSIFIED STOCK	-8.4	

52-week total return	%
PILGRIM CORPORATE UTILITIES	-17.9
FORUM INVESTORS STOCK	-11.6
DEAN WITTER CAPITAL GROWTH SECURITIES	-9.6



RELATIVE PORTFOLIOS

Amounts invested the present of \$10,000 one year ago	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
Stages indicate by total returns	\$13,920	\$12,058	\$11,543	\$11,013	\$10,213
	+0.55%	+0.80%	-0.30%	+0.89%	+0.04%

on this page are as of market close Tuesday, Dec. 28, 1993, unless otherwise indicated. Industry include S&P 500 companies only; performance and share prices are as of market close Dec. 27.

Mutual fund returns are as of Dec. 24. Relative portfolios are valued as of Dec. 27. A more detailed explanation of this page is available on request.

THE YEAR FOR AMERICA TO GO GLOBAL

Place your bets, Corporate America! There has never been a better time to play the global marketplace by exporting or investing overseas. Whether it's to satisfy the consumer demands of the growing middle classes of Asia and Latin America or to stake out positions for the 1995 economic upturn in Europe and Japan, this is the year to go global.

Why the rush? For the first time in maybe 20 years, the U.S. has the most competitive economy in the world (page 60). Germany and Japan, economic Olympians of the 1980s, find themselves in the 1990s with costly, inflexible work forces, overpriced products, and slow-moving corporate bureaucracies. Sound familiar?

As European and Japanese companies struggle to restructure, U.S. corporations are reaping the benefits of their own painful downsizings of years past. Productivity is way up, quality is back to world class in many cases, and disinflation is keeping costs under control.

Even the politicians are helping for a change. Thanks to the Clinton Administration's budget deal with Congress, interest rates are low and the federal deficit is plummeting toward \$190 billion, down from \$290 billion in fiscal 1992. With interest rates down and stock prices high, the cost of capital hasn't been so low since the early 1960s. The deficit-cutting bill has had an enormous impact. It's not something that should be taken for granted. Neither should the market-opening efforts of NAFTA and GATT.

Not many years ago, business and political elites around the world were reciting a three-part catechism: Japan's *keiretsu* system is unstoppable; Germany's social compact is eroding; American industry is hollowing out.

Myths, one and all. A strong yen and a deflating "balloon" economy are slowing Japan's onslaught and remaking its economic system. Today, Motorola, IBM, and Sun Microsystems are manufacturing products for Pioneer, Mitsubishi, and Yamaha to sell under their own brands. Matsushita Electric Industrial can't afford to make appliances in Japan anymore, so it assembles them in Thailand and Malaysia. Even *keiretsu*, it seems, have their limits.

In Germany, workers are being told they are too high-priced and too inflexible in their work rules. Wages and benefits are being cut, and factory hours made more flexible. So much for the German social contract.

As for hollowing out, the Midwest revival attests to the resiliency of American manufacturers and the flexibility of the U.S. workplace. Komatsu, not Caterpillar, is under pressure today; Daimler Benz, not Ford or Chrysler; NEC, Intel. Indeed, U.S. companies are pioneering the next technological revolution, the Information Superhighway.

Corporate America played defense for most of the past decade, restructuring while protecting domestic market share from highly competitive Japanese and European economic juggernauts. This year, American CEOs should take the competitive fight overseas: 1994 is the year to play offense.

DON'T BLOW YOUR LEAD, DETROIT

Detroit's comeback is one of the brighter moments of American industrial history. U.S. carmakers, particularly Ford and Chrysler, are quickly taking back market share ceded to the Japanese in the 1980s. With the auto industry humming and sales expected to hit about 14.8 million cars and light trucks in 1994, Detroit now has 73.8% of the American market, up 3.4% from 1991.

But those gains may now be at risk if Detroit begins to hike prices aggressively as they did in the mid-80s. A second round of price increases on 1994 models already is under way, and more will probably follow in the shadow of rising Japanese sticker prices.

Much of Detroit's recent gain is credited to having the right mix of products available to consumers. People increasingly want utility vehicles and minivans. Detroit has lots of them, while the Japanese don't. Detroit, for the first time in a long while, also has the kind of quality consumers demand. Most surprisingly, the Big Three have captured leadership in design and manufacturing. The Ford Taurus' improved quality plus aggressive pricing helped it bump the Honda Accord from its No. 1 position in the U.S. market. Chrysler's cab-forward design, which provides more interior room, is rev-

olutionary, and customers love it. GM's Saturn and Chrysler's new Neon show that Detroit can now compete in the segment of the market that the Japanese have dominated: small compact cars.

Detroit's biggest trump card, though, is the \$3,100 price advantage it has over most Japanese cars. The strong yen has forced Japanese auto makers to continually hike prices on their products. Until now, Detroit has only modestly followed suit, leaving a significant gap in its favor. Unconsciously customers have shown their appreciation.

Yes, Detroit still needs to improve its profitability in the North American market, and it may be that with higher quality, improved design, and a better mix of product, it can afford to erode its own price advantage. That's a gamble Detroit appears increasingly willing to take. But before confidence becomes hubris, the CEOs of the Big Three should take another look at the foreign-exchange markets. The yen is weakening against the dollar again, folks, and the Japanese may well decide to roll back some of their prices at a time when Detroit auto makers are raising theirs. With so many things going for its products, is this really the time for Detroit to be pushing up prices?



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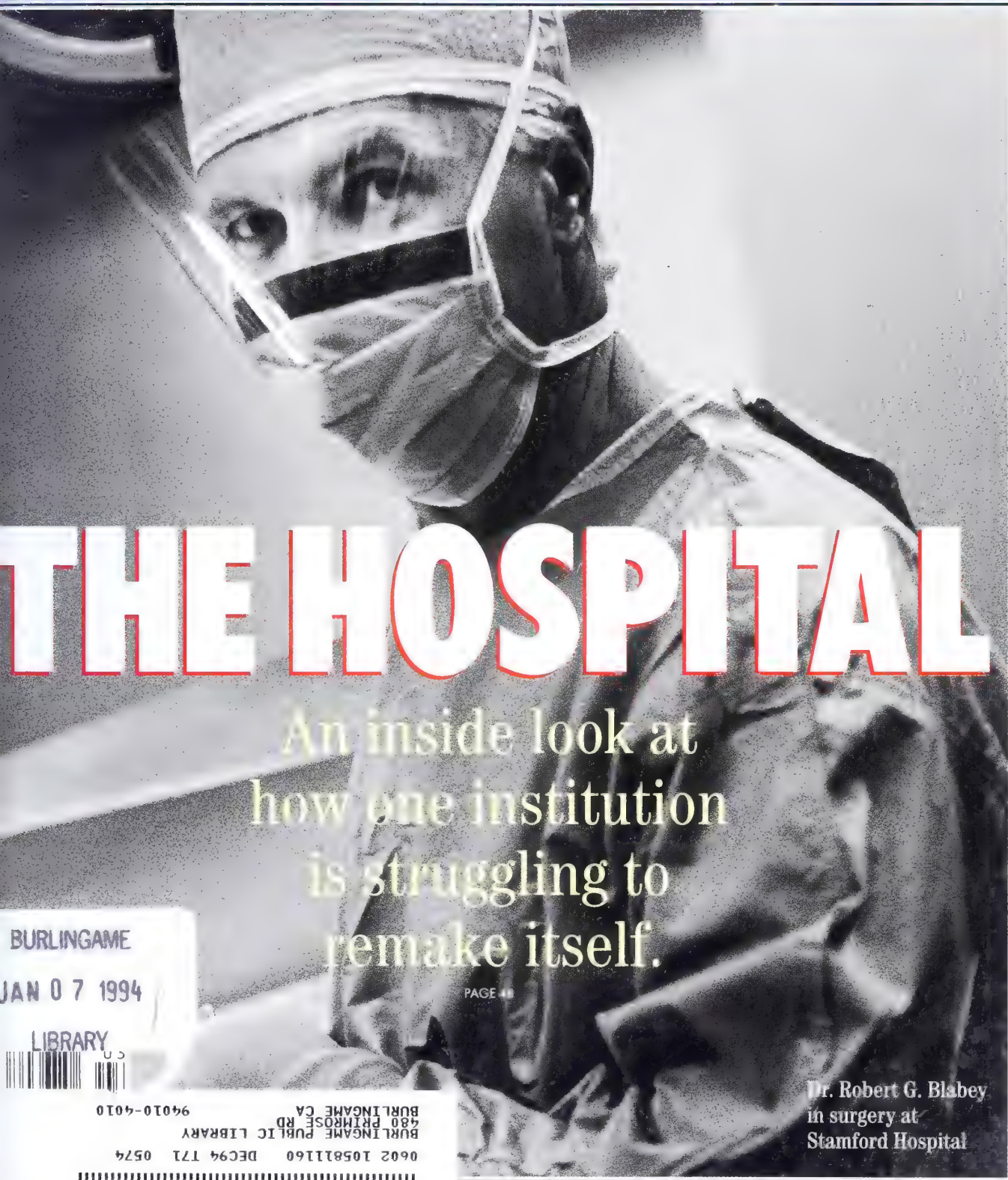
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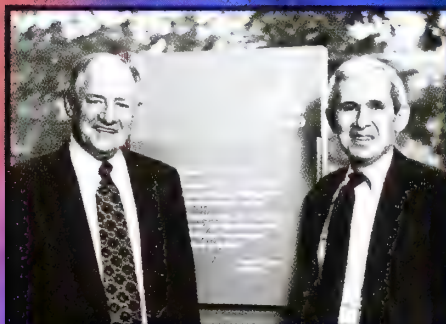
Today ITT Hartford is racing to the top of industry growth charts. With trimmed-down costs. And a customer response time that's as much as 90% faster. Thanks to help from Digital. Larry Lance of ITT Hartford elaborates, "With Digital's help, we've implemented new applications which improve customer service. For instance, our new claim management system lets us review claims and issue disability checks in two days. Our customers have less paperwork. We have lower costs. The results? Last year alone, we increased

our disability sales by 66%." His colleague Dave McDonald adds, "Changes in our business are occurring at an increasingly rapid pace. Digital will make it possible for us not only to cope with these changes but to continue to grow."

So if you want to get on the

fast track to a smarter way of working, call 1-800-DIGITAL and find out about our insurance solutions. Then break some records of your own.

PUTTING IMAGINATION TO WORK



Larry K. Lance
Exec. V.P., Employee Benefits Division
David J. McDonald
Sr. V.P., Asset Management Services
ITT Hartford Life Insurance

quicker response.

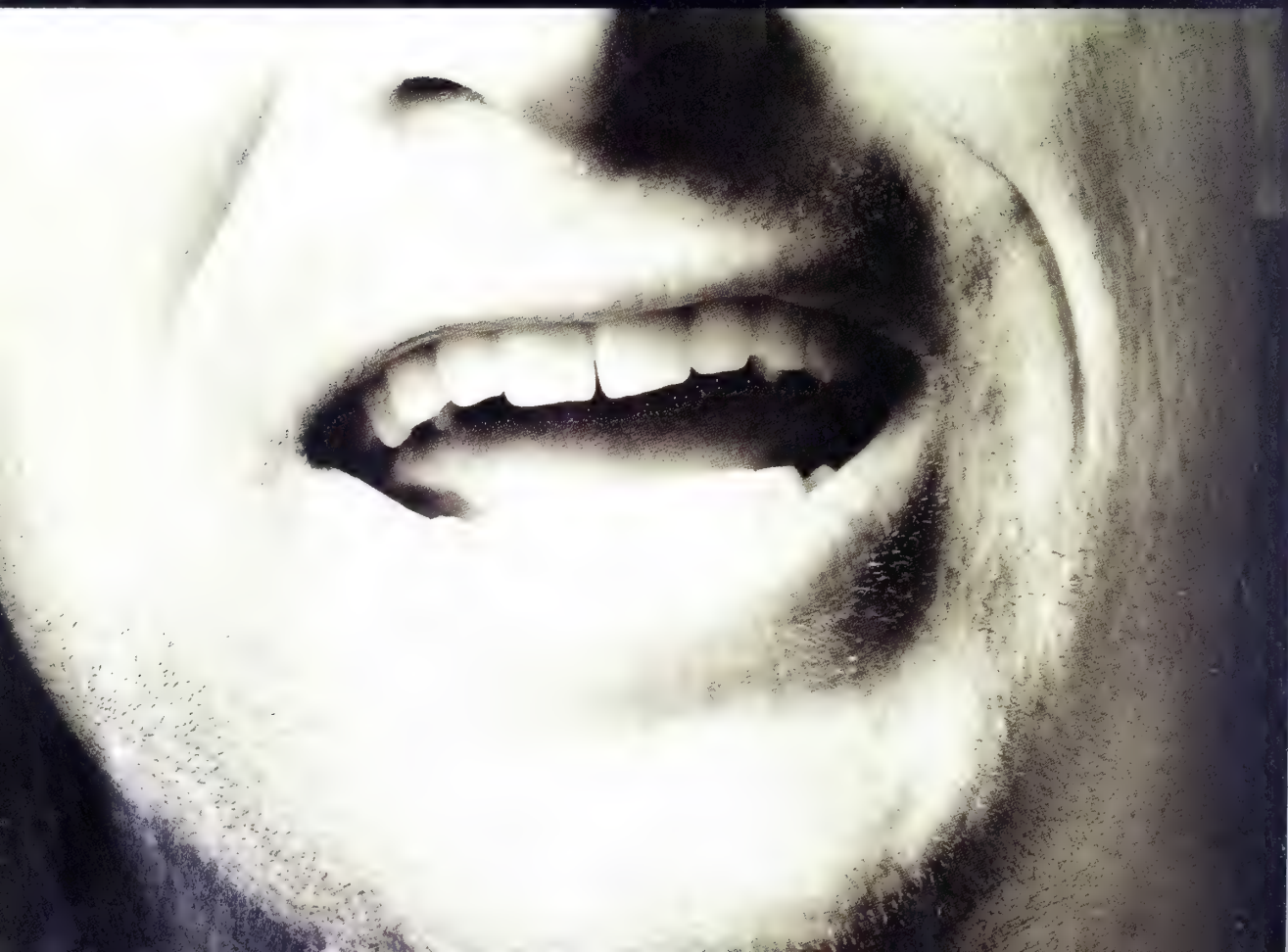
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playful

voices.





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phone numbers of their choice. Just by
voicing an audible when they are on
the line. And that means ten less num-
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GOLD



**VOICEACTIVATED
FÖNCARD**



AMERICA RETOOLS ITS HEALTH SYSTEM, MANY COMPROMISES WILL BE MADE. BUT HOW MANY CHANGES WILL COMPROMISE CARE?

Cover Story

48 THE HOSPITAL

It's a pillar of the American community—we fear and avoid it, yet welcome the security of its presence down the street. But the 5,300 hospitals that provide the bulk of the nation's short-term acute care are fast becoming anachronisms. This is the story of one of them, Stamford Hospital, as it struggles to deliver the cost savings payers demand—and the quality of care patients deserve

54 THE DOCTOR

"Why are you paying me," asks Bob Blabey, "if I can't make decisions?"

56 THE NURSE

Shortened stays, says Sue Worland, mean "going home and getting sick"

60 THE ADMINISTRATOR

For Madeline Hunter, an Everest of paperwork is all in a day's climb

61 THE NEW REALITY

On the horizon: Alliances, computer links, even bypassing insurers

Top of the News

24 A PREMIUM SCANDAL

Insurers are being probed for overly aggressive sales tactics

26 MCI UPS THE ANTE

It targets not only local phone networks but outdated laws, too

27 A KILLING ON WALL STREET

How were the bonuses this year? How does \$5 million sound?

28 IS KMART RUNNING IN PLACE?

It goes back to a strategy put on hold in 1992

29 THEY'RE SLICING UP ELSIE

Unable to sell itself whole, Borden adopts a piece-by-piece approach

32 TAKEOVER ON 34TH STREET?

Federated's move could mean the end of Macy's independence

35 JACK VALENTI ON SUNSET BLVD.

The legendary film lobbyist had a wretched year on both coasts

36 AMERICAN'S TOTAL DISASTER

Why the airline's new travel reservation project never took off

37 SMALL MAY BE BEAUTIFUL

To keep rivals in check, airline giants are aping the short-haulers

38 COMMENTARY

New Jersey's governor-elect doesn't want to pay to lure an NBA team

39 IN BUSINESS THIS WEEK

Gold fund realities, Taligent's new talent, ousted CEOs, Wygod on the move, Brennan's clock, pension woes

International Business

44 EASTERN EUROPE

Go East, young man...and play the stock market

45 EUROPE

Two new chiefs at IBM and Digital in Europe have their work cut out

46 CHINA

Beijing may be faced with social unrest if inflation continues unabated

47 INTERNATIONAL OUTLOOK

The guns of NAFTA: A startling dissent as peasants in southern Mexico rebel



DO THE QUEEN OF COSMETICS:
SMART MARKETING HAS MADE
FRANCE'S L'OREAL NO. 1 IN THE
WORLD. NOW, THE U.S. IS THE KEY
TO HOLDING ON TO ITS CROWN



82 REBOOTING BIT BY BIT:
A SERIES OF SUBTLE SHIFTS AT IBM,
SUCH AS MAKING SAVVY PC CHIEF
JAMES CANNAVINO HEAD STRATEGIST,
MAY YET REVIVE THE WOUNDED GIANT



24 POLICIES OF DECEPTION?
AT LEAST 13 STATES ARE NOW
INVESTIGATING MISLEADING SALES
PRACTICES BY METLIFE AGENTS, AND
THE PROBE IS SPREADING

Economic Analysis

18 ECONOMIC VIEWPOINT

Kuttner: Why Clinton shouldn't be afraid of red ink

20 ECONOMIC TRENDS

Victims of the '80s, mutual-fund mania, consumer spending, energy prices douse inflation

21 BUSINESS OUTLOOK

The holidays are over, but the party is in full swing

Government

12 WASHINGTON OUTLOOK

Health care: Cooper's compromise plan has a good chance of besting the President's proposal

The Corporation

35 BOEING'S NEW BONHOMIE

When the going gets tough, the planemaker gets touchy-feely

Finance

58 PLASTIC FANTASTIC SCAMMERS

Credit-card fraud is growing, baffling issuers and banks—and often putting big holes in customers' credit records

59 FROM RUSSIA WITH BRAINPOWER

At YES Inc., former Soviet defense whizzes are making their expertise work for Wall Street

73 BEAR TRAP?

Short-sellers love stock-rich UAM. But good news could send it flying

74 INSIDE WALL STREET

Why this high-tech small fry sizzles
 More than a gutsy IPO
 Smithfield Foods: A bit overcooked?

101 INVESTMENT FIGURES OF THE WEEK

Science & Technology

76 LIQUID-CRYSTAL DOMINANCE

Japan is far ahead of its rivals in the flat-panel-display race

81 DEVELOPMENTS TO WATCH

Hot pizza, liquid camera lenses, nondyslexic PDAs, swifter data transmission, balloons to the rescue



26 MCI WANTS TO MOVE THE MOUNTAIN:
CEO BERT ROBERTS PLANS TO DO
NOTHING LESS THAN RESHAPE THE
TELECOMMUNICATIONS INDUSTRY TO
SUIT HIS COMPANY'S AMBITIONS

Information Processing

82 BIG BLUE'S NEW COLORS

IBM's Gerstner has no grand vision but he's ready to drive much harder into network and consumer markets

83 REACH OUT AND TOUCH ANYONE

AT&T, Motorola, and IBM promise to link phones, PDAs, and PCs

Marketing

90 THE BEAUTY BIZ

L'Oréal's global clout hasn't hit the U. S. yet. But an assault is coming

Personal Business

94 ESTATE PLANNING: Keeping control

SMART MONEY: Utilities on watch

EXPORTING: Collecting your money

Features

6 UP FRONT

12 READERS REPORT

13 CORRECTIONS & CLARIFICATIONS

16 BOOKS

Podhoretz: *Hell of a Ride: Backstage at the White House Follies 1989-1993*
 Kolb: *White House Daze: The Unmaking of Domestic Policy in the Bush Years*

99 BUSINESS WEEK INDEX

100 INDEX TO COMPANIES

102 EDITORIALS

Containment, Nineties style
 The forgotten health issue: Quality

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

GOLDEN PARACHUTES

WHAT'S THE WORST THEY CAN DO—FIRE ME?



HAPPY FACES: D'Amato and Leo can cry all the way to the bank

Take my job... please! When high-profile chief executives are axed, it's no surprise their wallets seldom suffer. Yet with boards lately showing a greater inclination to replace CEOs, the roster of golden parachutists is worth reviewing. For instance, Paul H. Leo's current yearly salary is \$600,000 as a special consultant to former employer

Westinghouse Electric is not much less than the \$700,000 he was paid as CEO in 1992. Lego couldn't be reached for comment.

Also pulling a gilt rip cord: ■ Anthony D'Amato, Borden. Asked to resign on Dec. 9, 1993. Collects annual salary of \$900,000 until November, 1997. ■ Edward Finkelstein, R. H. Macy. Booted in April, 1992. Gets \$750,000 a year through December, 1994, plus a lifetime discount on merchandise. ■ Nicholas Nicholas, Time Warner. Left in February, 1992. Due \$250,000 yearly through mid-1999, on top of a \$15.7 million contract buyout. ■ James Robinson III, American Express. Ousted in February, 1993. Makes \$825,000 a year through February, 1995. ■ John Sculley, Apple Computer. Left in October, 1993. Gets \$1 million salary, plus \$750,000 for consulting through October, 1994. *Elizabeth Lesly*

FLYING AXES

THE CROWD IN UNITED'S DEPARTURE LOUNGE

At United Airlines, the revolution is at hand, and the guillotine won't stop at the king. The unions buying United aren't keeping it secret that they plan to replace CEO Stephen Wolf once they take control in mid-1994.

What's less known is that union leaders plan to roll the tumbrils for much of the carrier's senior management as well. Wolf confirms that UAL President John Pope, a respected finance man, will go. This is largely because he and Wolf opposed employee efforts to buy the carrier in 1990. Wolf's spinmeister and top United attorney, Executive Vice-President Lawrence

Nagin, also will get the heave-ho, says Wolf.

That's not all. United's two senior operating officials, Executive Vice-Presidents Joseph O'Gorman Jr. and James Guyette, plus Paul George,

TALK SHOW

Everything anybody at GM has given me to sell for the last 33 years has been overpriced... with the possible exception of Aurora.

—John Rock, general manager of GM's Oldsmobile unit, to an audience at the North American International Auto Show in Detroit

LISTS AND RATINGS

GE BRINGS GOOD THINGS TO SHAREHOLDERS

General Electric, producer of everything from dynamos to deal financing, has elbowed aside less-diversified Exxon to become America's No. 1 company in market capitalization. The Fairfield (Conn.) giant finished 1993

chairman in 1981, when the company was No. 8 (chart). Ailing IBM, No. 2 in 1981, has sunk to 11th.

GE says it did not overtly seek the market-cap crown. But much was

GE IS NOW THE MARKET-VALUE MONARCH

1981		1993	
RANK/ COMPANY	MARKET VALUE Billions of dollars	RANK/ COMPANY	MARKET VALUE Billions of dollars
1. AT&T	\$47	1. GE	\$89
2. IBM	34	2. EXXON	78
3. EXXON	27	3. AT&T	71
8. GE	13	4. COCA-COLA	58

SOURCE: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC.

with an \$89 billion market cap (number of outstanding common shares times stock price), pushing Exxon back to No. 2. In 1992, GE was in third place. GE's ascent has been steady since Jack Welch became

done under Welch to hike its valuation: Earnings per share almost tripled from \$2.00 in 1981. And there were three 2-for-1 stock splits and a \$1 billion share buyback from 1989 to 1992. *Chris Roush*



CEO WELCH: Master builder

senior vice-president for human resources, are in jeopardy, although they may jump before being pushed. Wolf denies they're going. The unions aren't pleased with George's handling of past labor negotiations. But he may have saved himself by helping craft the \$5 billion employee buy-

out. None of these execs, who will all benefit from golden parachutes, would comment.

Who will be spared? Cyriac Murphy, vice-president for international operations and government affairs, has admirers among the workers, so look for him to get a bigger job at the airline. *Kevin Kelly*

REALITY CHECK

HAZEL O'LEARY SAYS the U.S. may become dangerously reliant on imported (read: Middle Eastern) oil. Almost half our oil consumption now comes from foreign sources, vs. 32% in 1985. The Energy Secretary frets that, while

falling oil prices may be a short-term economic boon, they will cause trouble in the long run. So, the Energy Dept. has put forth an energy initiative that aims to boost domestic

drilling by sharing its technical resources and granting tax breaks.

IN REALITY, the Energy Dept. isn't doing much to enhance self-reliance. Unless the Feds open up promising offshore and Alaskan oil fields or impose an import fee—both politically taboo—domestic producers can't compete with lower-cost foreign rivals. As it is, small producers are shutting wells because



crude prices are low. True, using so much imported oil aggravates the trade deficit, but at least today the U.S. isn't vulnerable to embargo threats. With most OPEC members (even the Saudis) financially strained, the cartel won't reprise the 1970s, cutting off supplies to boost prices. *Peter Burrows*

HIGH-RESOLUTION LASER QUALITY PRINTING.
IS NO LONGER HIGH PRICED PRINTING.
INTRODUCING THE OKIDATA 400e-SERIES.

If you thought that outstanding clarity and detail were only possible with a premium-priced laser printer, take a close look at the new OL410e. Now you can produce the same superb output you see here for a lot less. The OL410e is an easy-to-use 600 dpi-class output printer with 4 pages-per-minute speed, at a price well below typical 600 dpi lasers. With the OL410e, any PC user can look Fortune 500 on a home office budget.

Okidata also offers standout 300 dpi resolution with PC Magazine's Editors' Choice winning OL400e. The experts

Stand Out

said, "...if you want laser quality, you won't find a better bargain." Both models support Okidata's tradition of reliability with an unsurpassed 5-year LED printhead warranty.

See Okidata 400e-Series print quality for yourself. Call 1-800-OKI-TEAM ext. 351 for the dealer nearest you.

You'll find values that make your output stand out.

YOUR BUSINESS HAS NEVER LOOKED BETTER.™

The New
OKIDATA
The Standard of the World

400e Series
Personal Printers.

OL400e

OL410e

THE AD GAME

A CUBAN BEACHHEAD FOR MADISON AVENUE

Fidel Castro's staunch socialism, brought low by economic woes, is loosening up to permit a capitalist evil once deplored: advertising. Castro banned ads when he took over in 1959. But in November, for the



CASTRO: Advertising is O.K.

first time, Cuban TV viewers watching the Central American and Caribbean track-and-field games in Puerto Rico

EUROQUABBLES

SWEDEN TO THE EC: SNUFF IT

Whether Sweden becomes a member of the European Community has come down to whether Swedes can use "snus." About 800,000 Swedes—10% of the population—regularly jam this moist tobacco snuff, packed



in little gauze bags, between upper lips and gums to get a nicotine fix without smoking, though, cigarettes. They have been doing it since the 1600s, so we're talking tradition. Trouble is, a 1992 EC law

saw commercials for Cuban and foreign companies that cost \$10,000 per spot. And billboards, which usually boast revolutionary slogans, now sport colorful ads for Italian clothing giant Benetton and for Hollywood cigarettes from Brazil. By U.S. law, Americans can't advertise in Cuba.

What's more, Cuba now offers cable-TV hookups that carry such U.S. programming as ESPN and the Discovery Channel—and their commercials. American cable companies say Cuba is pirating the signals.

Today, Cuba is so impoverished that few can afford to buy pricey goods such as Benetton togs. A cable hookup costs \$100, which is 40 times the average Cuban's monthly pay. But since the party line now embraces some aspects of a market economy, *Juventud Rebelde*, the newspaper of Cuba's communist youth league, writes that Cubans must "readapt the mind and outlook on commercial propaganda." *Gail DeGeorge*

bans the sale of snuff on health grounds. The Swedes, who must approve joining the EC in a referendum, have threatened to withdraw their membership application if they don't get a waiver. Negotiations with the 12-member EC may produce one, allowing them to use snuff so long as they don't export it. But there's bickering about whether Sweden will get a temporary or permanent exemption for "snus."

The French, in particular, insist on a temporary one because they find the product disgusting. Retorts Stig Berglund, spokesman for the Swedish embassy to the EC: "Ask 800,000 snuffers what they think about frogs' legs." *Patrick Oster*

DRAWN AND QUARTERED



GLOBAL TRADE

E.T., PHONE MICKEY KANTOR

Forget GATT and NAFTA. Forget the stubborn U.S. trade deficit with Japan. The entire world has a foreign-trade crisis. Paul Krugman, an economics professor at the Massachusetts Institute of Technology, calculates that Planet Earth has a trade deficit of \$100 billion. "Ross Perot has it wrong," Krugman writes in *The Journal of Irreproducible Results*, a publication affiliated with MIT. "That giant sucking sound isn't coming from outer space. Aliens are stealing American jobs."

Krugman adds up the export totals for every nation in the world, then totes up

the imports in 1992. And he finds that the \$4 trillion exported by all nations on earth was \$100 billion less than the value of all imports.

But before U.S. Trade Representative Mickey Kantor starts channeling Elvi



aboard his UFO to negotiate consider another explanation. Trade accounting for export is a notoriously inexact science. *Stephen H. Wildstrom*

THE BIG PICTURE

GOT THOSE WHITE-COLLAR BLUES

OFFICE POLITICS
36.2%

WAITING TO USE MACHINES
26.8%

UNDECIDED
14.7%

HAVING TO WORK LATE
11.4%

DEADLINE PRESSURE
10.9%

Ever had one of those days? According to one survey of 1,000 working adults, here's what made it so irritating.

Total mail-order sales, 1993: **\$55 billion**. Total TV shopping-network sales, 1993: **\$2.2 billion**.



We Put Our Passengers In The Driver's Seat.

Most luxury cars give the driver a sophisticated seat that adjusts to the body for maximum comfort and support. Passenger comfort, however, tends to take a back seat.

Not so in the Lexus LS 400.

Its front passenger's seat is built around the form of the human body, just like the driver's seat. It has five motors to adjust ten different ways, just like the driver's seat. It even offers adjustable lumbar support, just

like the driver's seat. In fact, the front passenger's seat of the LS 400 is – you guessed it – just like the driver's seat. Except that it's on the right-hand side of the car.

To accommodate your friends more, you'd have to give them the wheel. But you don't want them to have all the fun, do you?


LEXUS
The Relentless Pursuit Of Perfection.

Mission critical.

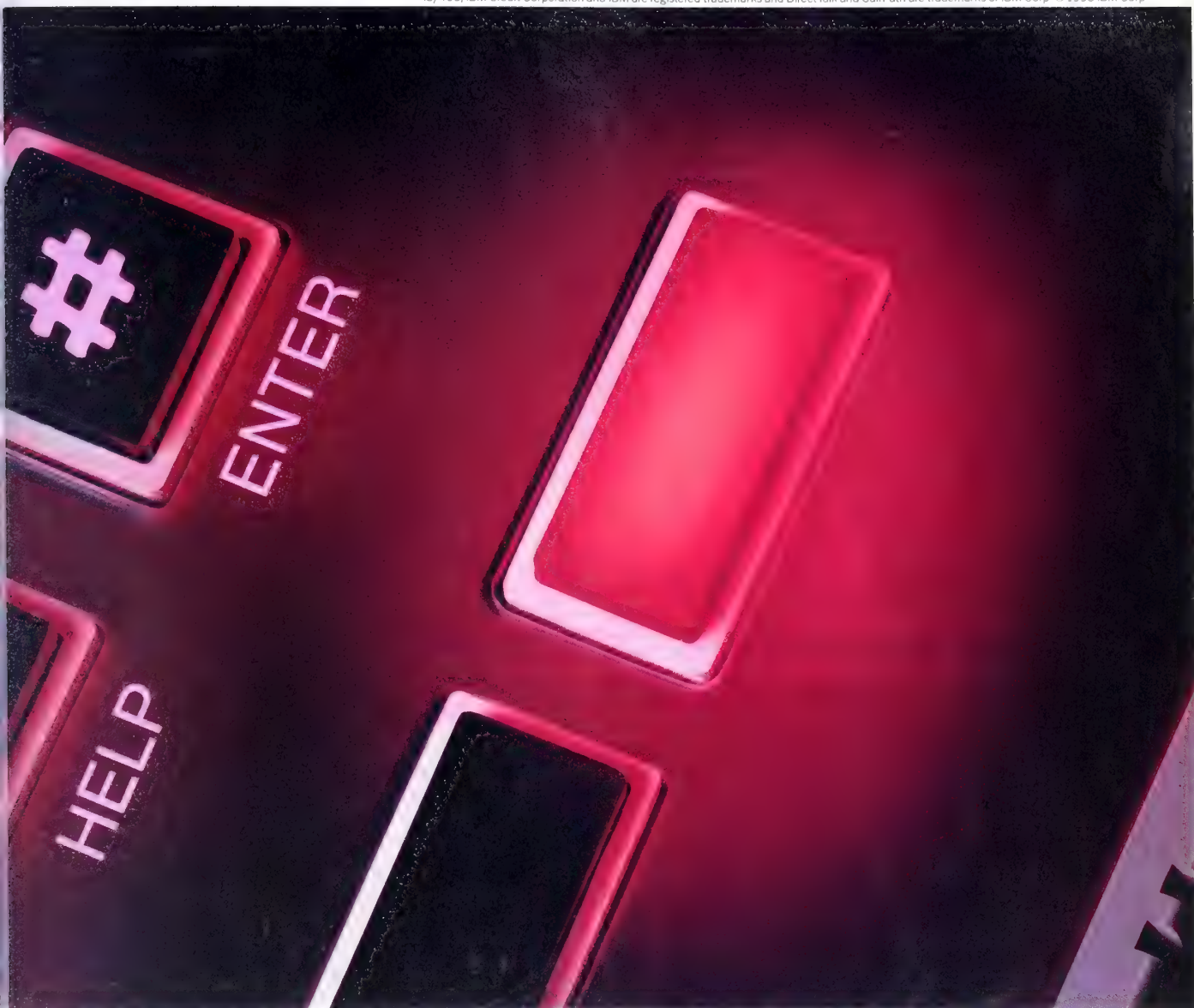


When a leading person

Managed Health Network, Inc. is a nationwide service that puts people having trouble in touch with people who can help them, and sometimes there's no time to spare. So their voice and data systems have to be on excellent speaking terms, and that's why Gary Velasquez, CFO, called IBM.

"Basically, our applications were disjointed, and we were growing too fast for them to keep up. We figured IBM could give us a total solution—voice and data, hardware, software, strategy and services—and we were right."

IBM began by installing an AS/400®, then we



pline needed help, they called IBM.

ight in an IBM Business Partner to customize software that's fast, flexible and easy to expand.

Says Mr. Velasquez, "People call us 24 hours a day and it only takes one or two questions for full information to appear on the screen. We can give immediate and schedule follow-up counseling in one phone call. That's customer service."

"We're handling 60% more claims a day, and, thanks to image processing, a job that once took 30 hours now takes 20 seconds. That's productivity."

The future's even brighter. Working with Granada (another IBM Business Partner), Managed

Health Network is integrating IBM DirectTalk™ software that answers simple phone queries, with IBM CallPath™, an application that instantly gives customer information to human operators.

IBM also helped with a more basic issue, budget. The IBM Credit Corporation® extended financing with payments designed around the customer's fast growth path and unique cash flow requirements.

Managed Health Network is in business to help people fast, and so is IBM. For a free video about IBM solutions for health care, call 1 800 IBM-6676, ext. 706.



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**THE HORIZONTAL CORPORATION:
BETTER BUSINESS OR HOGWASH?**

I found your Cover Story "The horizontal corporation" (Dec. 20) interesting and provocative.

To me, the most critical point is that the phenomenon of the flattening organization is occurring in most corporations by accident. Most companies are victims, not proponents, of this trend.

It is largely the result of technology changes and new communication vehicles (i.e., e-mail) that change an organization's structure and culture randomly. Everything is happening faster, and people receive fewer instructions. The result is a working environment that seems chaotic or confused.

There is no doubt this environment presents tremendous opportunities for individuals and teams to expand their influence and impact by networking, doing a good job, and having a reputation for business knowledge.

John Pilkington
Eliot, Me.

When horizontal organizations work, it is because an investment has been made in information systems that effectively aggregate and distribute operational information. Horizontal is something most companies have been trying to achieve in bits and pieces for decades. Unfortunately, the time and resources required often results in unclear benefits and embittered many of them toward further investment in information systems. Your article tells us this investment has become the price of staying in the game.

Richard Ross, Managing Director
Decision Strategies Group
Greenwich, Conn.

For those "flattened out" of their jobs, transitions to new, well-paying employment are often difficult, if not impossible. Equally significant, those left in the new management systems usually

have more to do, often without increased compensation—with one exception. With all the flattening of business corporations, the ratio of average CEO pay to corporate employee salaries went from 42 to 1 in 1980 to 160 to 1 in 1992.

If this kind of horizontal management is the wave of the future in business, there are a lot of suckers being born every minute in Corporate America.

Arthur T. Himmelman
Minneapolis

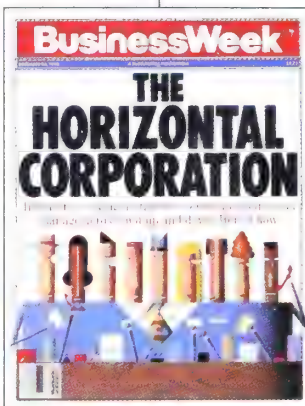
To a veteran of matrix, task force and strong pyramid organization operation, moves toward the horizontal corporation are heartening. Those with strong specialties will be important, but equally important will be the ability to supply their specialty in teams and knowledge of other disciplines. Unfortunately, it appears most colleges and universities are behind the curve in meeting these needs. Since universities are bottom-up organizations forced into pyramid structures, horizontal corporation lessons could improve their outlook. Otherwise, industry comments suggest, many universities will be irrelevant to business.

Rex T. Ellington
Seven V Enterprises
Norman, Okla.

I have spent the better part of my afternoon trying to figure out the substantive differences between the horizontal corporation and the virtual corporation. I conclude there are none.

The time has come to transcend buzz words and return to basics of effective management. Let me recommend *Beyond the Hype: Rediscovering the Essence of Management* (Harvard Business School Press)—a sobering, well-researched account of how this search for the newest management concepts is paralyzing organizations and rendering meaningless once meaningful ideas.

Rakesh Khurana
Cambridge, Mass.



BUSINESS WEEK
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CORRECTIONS & CLARIFICATIONS

"Trump tries to pull a Houdini" (Top of the News, Nov. 29) misstated the size of the mortgage on the land for Riverside South, a Manhattan real estate complex under development by Donald Trump. It is \$209 million, not \$12 million. The story also said that Trump could buy the Aladdin casino for less than \$100 million. The Trump Organization puts the price at \$60 million.

In challenging the fairness and tone of the article, Trump raised questions about the characterization of his cash position. While Trump does not dispute a banker's estimate that his personal cash amounts to only about \$1 million, the Trump Organization says its various businesses, primarily casinos, have \$139 million in cash. But filings with the Securities & Exchange Commission show that there are restrictions on using that money for the new projects discussed in the article. The Trump Organization says it can reinvest the \$139 million in existing businesses, thus bolstering its financial position.

BUSINESS WEEK continues to believe that the story fairly and accurately represents Trump's ability to finance the new projects discussed.

"Don't get trampled in the stampede" Where to Invest, Dec. 27) should not have identified Zenith Data Systems as a stock to avoid.

THE TRAGIC OUTCOME OF GUN-MERCHANDISING GUNS

I was keenly interested in "Who's minding the gun counter?" (Legal Affairs, Oct. 25). My 43-year-old sister committed suicide Sept. 7 with a handgun she purchased on Labor Day weekend at a Wal-Mart in Ponca City, Okla.

Your article pointed out the problems with selling guns as one would sell an article of clothing. With the growing public backlash against this attitude, Wal-Mart has announced it will stop selling handguns.

I believe your article contributed significantly to this decision, and all of us who have been affected by handgun violence applaud both this increased media scrutiny and Wal-Mart's newly discovered corporate responsibility.

John Mehring
Seattle

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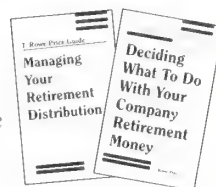
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HELL OF A RIDE

By John Podhoretz
Simon & Schuster • 249pp • \$21

WHITE HOUSE DAZE

By Charles Kolb
Free Press • 378pp • \$22.95

FORGETTABLE GEORGE

Remember George Bush? Cautious guy. Whiny voice. Loved to hobnob with world leaders and drive his speedboat. Won a war, didn't he?

Funny how easily we forget. Just a year ago, Bush was sending troops to Somalia and bombing Iraq—again. When he took office in 1989, he had the best résumé and the luckiest set of historical circumstances of any modern President. Yet his image has already dropped off the national radar screen.

Perhaps it was inevitable, given Bill Clinton's adrenaline-charged victory and tumultuous first year in office, that the Bush years would instantly seem like moldy reruns of a sitcom called *Life with Poppy*. But not everyone has plunked them out so quickly. Two books by former aides paint a devastatingly angry, at times wickedly funny, portrait

of life inside the Bush White House.

Hell of a Ride: Backstage at the White House Follies 1989-1993 by speechwriter John Podhoretz, and *White House Daze: The Unmaking of Domestic Policy in the Bush Years* by deputy domestic policy adviser Charles Kolb, read like texts from a Patti Davis seminar on "Living in Dysfunctional Families." They depict an Administration suffocating under a banal cult of personality. Obsessed with "prudence" and preppy codes of behavior, Bush could focus on events only in terms of "his own halting reaction to them," says Podhoretz, rather than their impact on national interests.

Any Republican with hopes of besting Clinton in 1996 will find both books worthwhile. Their message: Forget caretaker government. Republicans will remain in the wilderness until they can

reunite country-club elites and conservative hard-liners behind an activist agenda that taps into popular sentiment.

These books are like primal scream from two very frustrated people. Contrary to popular perception, they say the Bushies put in hours as long as anlogged by the youthful but bedraggled Clintonites. But behind closed doors, bully boy White House Chief of Staff John Sununu and Budget Director Richard Darman were running amok, shouting at subordinates and stifling ideas that could revitalize the GOP.

They were the enforcers of Bush's do-nothingism. Podhoretz calls them "the White House equivalent of the Computer Club...nerdy guys fully grown, who retained from their high school years a special blend of arrogance and awkwardness." Together they destroyed all political give-and-take. And, as both books show in juicy detail, Sununu's replacement, the affable Samuel Skinner, was no match for the cunning Darman.

In particular, Darman got to Kolb. "Those wrists. Thick, barrel-like, clumsy wrists," he emotes, describing their first encounter. And later: "[Darman's] egocentricity was spiced with a poisonous temper and a relentless vindictiveness."

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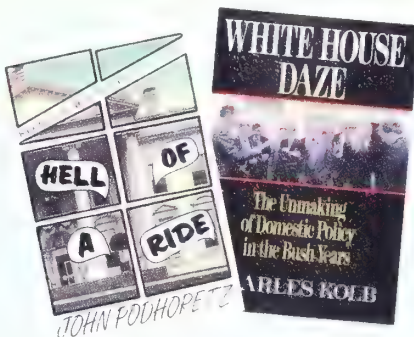
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ON THE STREET

Two tell-all books by former aides paint a biting portrait of banality in the Bush White House



oward anyone who disagreed with him."

It's like that all through Kolb's spill-all book. His refrain: If only those fools had stened to me. Kolb's use of exclamation points must set a new record. But e's no dummy, nor is he alone. Rather, e's one of a generation of GOP strategists who believe Bush squandered Ronald Reagan's legacy, betraying core Republican principles by raising taxes and, anks to patrician blind spots, alienating working mothers, young job seekers, and urbanites—potential GOP voters all.

A confirmed policy wonk, Kolb suggests how a tactical move here or a clear enunciation of policy there might have saved Bush. Instead, "the country saw its 68-year-old President traveling the land expressing his own bewilderment and calling 1992 'weird, man'.... It translated into a perception that his Administration was incapable of charting a course for the future."

Podhoretz' effort is more nihilistic than Kolb's, and more fun by far, in part because he writes better. He also

lightens up his vitriol with scathing wit. "Bush is the spiritual opposite of Groucho Marx; he never knew a club that he didn't want to be a member of. Club members get privileges," he writes. Poking fun at the Bushies' adherence to Secret Service admonitions to wear their White House tags at all times, he observes: "Except when they are libertarians, Republicans are very obedient folk and listen to men in uniform who tell them what to do."

Both books are often bitter and stunningly frank, even cruel, about Bush and his forgettable functionaries. But the bigger picture is of an Administration at the end of a golden era for the GOP. Bush, the last leader from the World War II generation, never grasped that with the cold war over and a new economic order forming, people wanted a President ready to grapple with change. It's a lesson GOP hopefuls had best keep in mind. Just saying no to Democrats doesn't cut it anymore. And if Clinton can solidify the gains of '92 by pushing through the reforms of a centrist agenda, it could be a long time before a Republican sees the inside of the White House again.

BY DOUGLAS HARBRECHT

Washington Correspondent Harbrecht covered the Bush White House.



WHERE YOU LIVE

WHY CLINTON SHOULDN'T BE AFRAID OF RED INK

BY ROBERT KUTTNER



Further progress
in reducing
the deficit could
hamstring
the Administration's
drive to achieve
key reforms

The 1995 federal budget, soon to come before Congress, will project a deficit of roughly \$190 billion, a stunning reduction from the \$302 billion 1995 deficit forecast just two years ago. The improvement partly reflects faster economic growth and partly the heroic deficit-reduction accord of last summer. Yet the deficit hawks in both parties maintain a fiscal ferocity oddly disconnected from the actual budget picture. They want to bludgeon the deficit into total submission—putting at risk the economy and the Clinton Presidency.

A constitutional amendment to require a balanced budget by 1999 now has enough supporters to win passage in the House and very nearly enough in the Senate. Its chief Democratic sponsor, Senator Paul Simon of Illinois, told me he faults President Clinton both for failing to support budget balance and also for not spending billions more on public works. How can Simon support both budget balance and more public spending? "We need a big tax increase," the senator intoned. Never mind that practically nobody would vote for it.

In the House, an amendment proposed by Timothy J. Penny (D-Minn.) and John R. Kasich (R-Ohio) lost narrowly in November. The amendment would have cut the deficit over five years by some \$90 billion beyond the cuts mandated under the 1990 and 1993 budget deals; it would have cut Medicare to pay for national health reform and lowered caps on discretionary spending by an additional \$53 billion. These notions will be back when the 1995 budget resolution is debated.

NEW WALL. Further deficit-cutting especially appeals to conservative Democrats associated with the Democratic Leadership Council and to Democratic freshmen trying to attract Ross Perot supporters. Of the 57 Democrats who backed Penny-Kasich, 20 were freshmen. DLC leaders are now considering a proposal to restore the old Gramm-Rudman "budget wall" between defense and domestic spending. The wall, which expired in 1993, forbids defense cuts from being reprogrammed to domestic outlays. A new wall would insulate defense spending. Sponsors hope this would enlist "defense Democrats" who voted against Penny-Kasich for fear of cutting military outlays.

Meanwhile, a commission on entitlements will soon be appointed to recommend further cuts in Social Security and health outlays. The commission was the price that Senator Bob Kerrey (D-Neb.) extracted from President Clinton in exchange for supporting the 1993 budget deal. The commission, to be chaired by Kerrey and Republican Senator John C. Dan-

forth of Missouri, will have 10 members from the House, 10 from the Senate, and 10 appointed by President Clinton. Congressional Republican leaders are threatening to boycott the commission unless Clinton uses his own slots to appoint prominent critics of entitlement spending, such as former Republican Senator Warren B. Rudman or investment banker Peter G. Peterson.

FATEFUL CHOICE. All of this deficit hawkery puts Clinton in a terrible bind. The deficit is already being reduced more effectively than under his two predecessors. Under the existing caps, domestic spending will be 13% lower in 1998 than in 1993. Military spending is coming down even faster. Social Security pensions, by law, can rise no faster than inflation. The other budget-busters are Medicare and Medicaid, but the cure is comprehensive health insurance, not meat-ax program cuts.

Clinton was elected on a platform of putting people first. As a New Democrat, he championed investments in people aimed at raising economic performance, enhancing personal security, and promoting personal responsibility. Some of these cost money—for education, job training, technology, health and welfare reform. But if Clinton is hamstringing with budget caps, this vision will be reduced to mere rhetoric, and voter cynicism will increase apace.

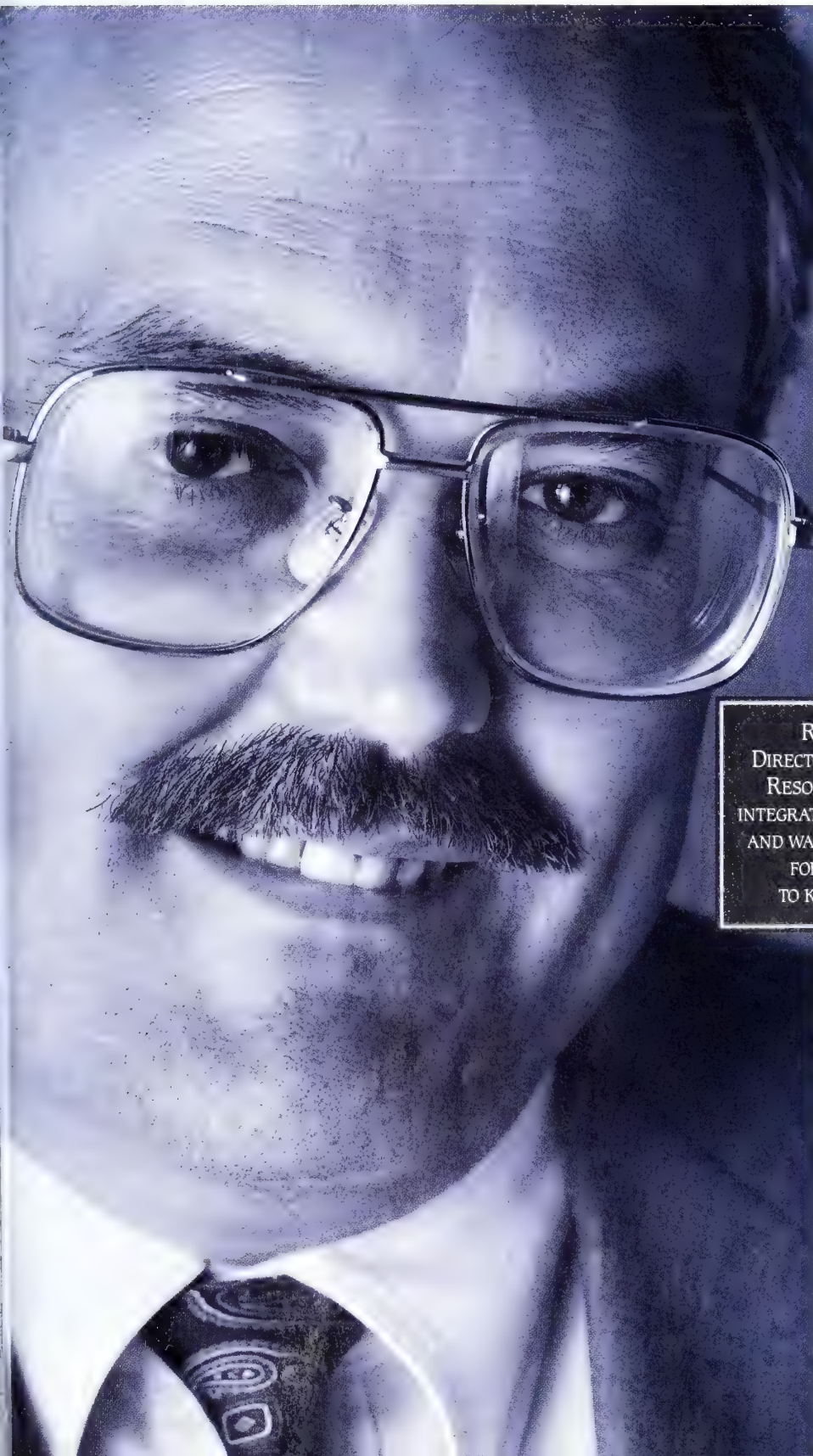
Clinton opposes the slash-and-burn school of budgeting, but he faces a fateful political choice. He can continue taking a low profile, and his more conservative advisers such as David Gergen propose. This means working the phones against such measures as Penny-Kasich and the balanced-budget amendments. Or he can go public, as he did so effectively on NAFTA. He can challenge the logic of deeper cuts and explain to voters why excess deficit reduction would abort the recovery and block needed public investments and social reform.

If he chooses the cautious approach, he is likely to lose these battles and with them any room for Presidential leadership. Congress pursuing deeper budget cuts because it thinks that is what the public expects. In fact, polls show public opinion is contradictory on budgetary issues. Voters want Washington to put its house in order—the budget is symbolic of the concern—but the voters even more strongly want progress on substantive issues of job growth, crime, and health. An excess of budgetary zeal would set back progress in all these substantive areas.

Clinton can lead Congress only by leading the public. We will shortly see which course Clinton pursues, in his Jan. 25 State of the Union address.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE BOOK "LAISSEZ FAIRE"

Software Artist.



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BY GENE KORETZ

WAS THE LAST DECADE REALLY SO CRUEL? YES

The 1980s were not particularly kind to most Americans. Average wages adjusted for inflation actually declined. While some middle-class families were catapulted into affluence and some rich people got immeasurably richer, the poor and less educated took a bath, and the broad middle class went nowhere.

Some observers argue, however, that this uninspiring picture misses a key point: Individual American workers and their families still managed to climb the income ladder as experience and enhanced skills paid off in the job market. In this view, overall income growth may have lost steam, but upward mobility

those in the top 20% of the income distribution managed to post income gains comparable to the increases they registered during the 1970s.

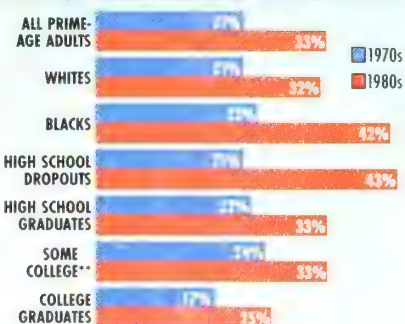
More startling is the big rise in downward mobility (chart). During the 1970s, only a fifth of prime-age adults and their families suffered real income losses. In the decade ending in 1989, the proportion of those who lost income during their prime earning years jumped to a third, and half of that group experienced income losses exceeding 25%. About 42% of both blacks and high school dropouts saw their incomes shrink.

Rose notes that those achieving very large income increases of more than 70% over 10 years lost ground, too. In the previous decade, some 35%, or more than a third of prime-age adults and their families, enjoyed such outsized real income gains. During the 1980s, the big winners fell to less than one in four.

That's not all. The study indicates that if one looks at the entire population, including those under 22 and over 48 at the start of the decade, some 44% suffered real income declines during the 1980s—about 1½ times as many as in the 1970s. The dramatic increase in downward mobility, speculates Rose, has had a chilling effect on Americans' traditional optimism. "For every family that has lost ground," he says, "another sees this experience and wonders whether they will be next."

DOWNWARD MOBILITY SOARED IN THE 1980s

PRIME-AGE ADULTS WHOSE REAL INCOMES DECLINED*



*ADULTS AGED 22 TO 48 AT START OF DECADE
**LESS THAN FOUR YEARS OF COLLEGE
DATA: STEPHEN J. ROSE, NATIONAL COMMISSION FOR EMPLOYMENT POLICY

in the 1980s remained alive and well. A new study by economist Stephen J. Rose of the National Commission for Employment Policy in the current issue of *Challenge* magazine refutes such claims. Using data from the University of Michigan's Survey Research Center, which has tracked some 5,000 families since the late 1960s, the study throws revealing light on the fortunes of prime-age adults (those starting the decade aged 22 to 48 and ending it at 32 to 58) during both the 1980s and the 1970s.

Rose found that income growth for prime-age adults slowed sharply in the 1980s, with average incomes rising by only 33% in real terms, compared with 70% in the 1970s. Average income gains for those with less than high school dropped for blacks fell precipitously from 39%, respectively, over the 1970s to 14%. Only college graduates and

that their investments are somehow protected by government guarantees.

All of this spells extra caution. If the economy grows at around a 3% clip in the months ahead and the flow into mutual funds continues unabated, "the Fed will feel justified in nudging short-term rates modestly higher," predicts Hale.

BUY NOW, PAY LATER KEEPS CONSUMERS OUT OF THE COOKIE JAR

As some economic bears see it, consumer spending and the economic pickup it has fueled are headed for a fall. That's because spending has been outpacing income growth, a trend that's unsustainable. At some point, so the argument goes, consumers will have to stop cutting their savings and retrench.

Economists at UBS Securities Inc. point out, however, that the savings rate is determined by what's left over after consumer spending is subtracted from personal income. And the government uses the full value of cars and such durables as appliances and furniture in estimating consumer spending for those goods. Yet most cars are either leased or bought on the installment plan, and many other big-ticket items are also financed.

The upshot is that the big jump in consumer spending on cars and durables in recent months has required a lot less cash up front than government data suggest, leaving households with more money to spend. Meanwhile, says UBS, producers of the goods people have been buying are boosting output and thus sparking job and income growth that will fuel the next round of consumer spending.

MUTUAL-FUND MANIA: DANGER SIGNAL FOR THE FED?

Fed watchers are convinced the Federal Reserve stands ready to tighten if economic growth remains strong and inflation shows signs of picking up. But economist David Hale of Kemper Financial Cos. thinks another factor could also prompt the Fed to act: the huge outflow of consumer savings from banks and money-market funds into equity and bond mutual funds.

So far, the mutual-fund boom has benefited the economy by allowing households to diversify their financial assets while encouraging buoyant underwriting activity in the bond and equity markets. But Fed officials are concerned, says Hale, because the mutual-fund industry is gathering assets so fast that it could overtake banking by next year.

Such a shift could have unexpected effects on the stability of financial markets, consumer wealth, and credit flows. Many consumers don't understand the risks that interest-rate hikes pose for equity and bond funds, and many believe

ENERGY PRICES SLOW INFLATION TO A CRAWL

Don't expect a near-term surge in consumer prices. Economist Donald Ratajczak of Georgia State University, who conducts his own survey of consumer markets, predicts that the consumer price index will be up just 0.1% in December. The big reason: plunging prices of gasoline and other fuels, which are expected to hold the CPI's rise in January to 0.1% as well. By contrast, consumer inflation exploded in January 1993, rising at a 6%-plus annual rate.

"If energy prices were not falling," says Ratajczak, "consumer inflation would be moderate. With declining energy prices, it is nearly absent."

THE HOLIDAYS ARE OVER, BUT THE PARTY IS IN FULL SWING

It's winter again—time for economists to start watching the Weather Channel in addition to the business news. Jack Frost has been known to chill the economic data as well as the landscape. But barring a repeat of the blizzard of '93, the economy has enough heat to keep the data nice and toasty in early 1994.

The economy's momentum is concentrated in the interest-rate-sensitive sectors that historically have given the business cycle its swing: construction and manufacturing. In particular, housing and autos are the driving forces. Those props lifted fourth-quarter economic growth to the fastest pace of the year, and they will continue to fuel the economy in the first quarter.

The chief reason: 1993 was the year that long-term interest rates finally fell—until then, a key ingredient missing from this expansion. The drop's impact is now giving this upturn a more traditional look. And amid low long rates and healthier job markets, there is every reason to expect the gains in construction and manufacturing to continue in early 1994.

The recent backup in 30-year Treasury yields to 6.4% in early January, from their October low of 5.8%, is no cause for alarm given the size and speed of the drop during the previous year. And with every sign pointing to 1994 inflation of no more than 3%, the rate rise—not to mention any further increase—is hardly justified.

So, too, manufacturers have little to fear from the weakening in the Japanese yen. The dollar has firmed to about 112 yen, from a postwar low of 101 yen in mid-August, mainly because the Japanese current-account surplus is finally beginning to shrink. However, this decline will be slow, and even at 120 yen per dollar, U.S. manufacturers remain highly competitive, given their productivity gains and cost reductions in recent years.

SKIMPY STOCKPILES WILL FUEL OUTPUT

The December report from the nation's purchasing managers was especially upbeat on the near-term prospects for manufacturing. The National Association of Purchasing Management's index of industrial activity jumped to 57.9% from 55.7% in November (chart).

The purchasing managers' index has now been above the 50% dividing line between contraction and expansion

in manufacturing for three consecutive months, and the pace of activity has accelerated in each month. The December reading was only a shade below the 58% mark in January, 1993, which was a 5½-year high.

The likelihood of continued strength in manufacturing in coming months shows up in factory order books. New orders for durable and nondurable goods rose 1.4% in November, the fourth increase in a row. And a fifth advance seems likely based on the NAPM's survey results. The purchasing managers' orders index also jumped in December, to just shy of a 10-year high.

Another plus for manufacturers heading into the new year: Inventories are exceptionally low. Clearly, factories are using improved inventory-control techniques in order to operate with lower stock levels. However, stockpiles may be too low. In November, factory inventories rose only 0.1% in the face of a 1.6% advance in shipments. That cut the ratio of stock levels to demand to 1.44—the lowest in 35 years of record-keeping.

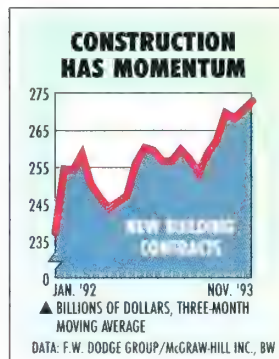
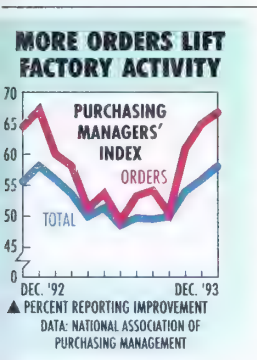
At the recent pace of shipments, factory inventories are too skimpy to meet demand. That means output and payrolls will continue to rise in early 1994, as manufacturers pick up the pace in order to avoid losing sales. Inventories were even skimpier in December, says the NAPM, while production and employment improved.

BREAKING GROUND ON MORE PROJECTS

Construction, with its broad economic impact, will also extend its fourth-quarter strength into the new year. Single-family housing is leading the way, but after a three-year depression, apartment construction and commercial and industrial building seem to have turned the corner as well, though the recovery will be slow going.

From July to November, spending on residential, non-residential, and government projects posted the largest four-month advance in nine years. The string was capped by a much-stronger-than-expected 1.8% surge in November outlays, led by a 3.3% jump in residential spending, the strongest advance of the year.

The recent trend of new construction contracts, which leads outlays by about one quarter, foreshadows further spending increases in the first quarter (chart). The pattern of contracts suggests that construction outlays, which



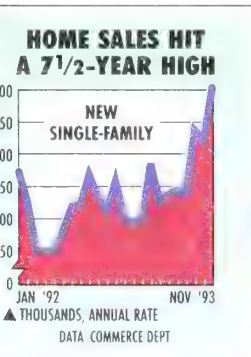
Business Outlook

were a big contributor to fourth-quarter growth in real gross domestic product, will help to lift the first quarter as well. Of course, as usual, the severity of the winter weather also will play a big role.

A FLURRY OF 'SOLD' SIGNS

The real oomph in the housing market right now and through early 1994 is coming from the single-family sector. Given that home prices are no longer perceived to be weakening, that mortgage rates remain near a 25-year low, that the job market is improving, and that consumer confidence is rising, buyers are realizing that now is the best time in many years to go after a house. And those favorable conditions will continue in 1994.

In November, purchases of new single-family homes jumped to a 7½-year high (chart), while sales of existing homes hit a record. Resales rose 2.9%, to an annual rate of 1.21 million. Demand for new homes soared 11.3%, to an 807,000 pace, led by gains in the South and West.



A sharp rise in new-home sales in the West suggests that the real estate market in California is finally turning around. Sales out West accounted for 84% of the November jump and are up 47% since July.

The strength in new-home sales in the fourth quarter will give housing starts a lift in the first quarter as builders respond to increased demand. In addition,

at the November pace of buying, the inventory of unsold new homes dropped to a 4.7 months' supply—the lowest in more than seven years. Lean inventories, along with increased bank lending, will undoubtedly fuel the speculative-building urge in some developers.

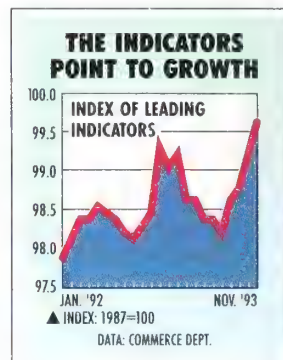
But the gains are not just in the residential sector. Although increases in residential outlays have contributed

\$17.2 billion of the \$24.2 billion growth in private construction spending since July, nonresidential outlays have chipped in \$6.6 billion. Spending for business construction of industrial buildings, offices, and other commercial construction has risen for four consecutive months, including a 0.9% increase in November. Spending for such buildings is now 12.2% ahead of a year ago, the strongest annual growth rate in eight years.

Don't expect too much strength from business construction, though, especially office construction. Office-vacancy rates have declined somewhat, but they remain prohibitively high to warrant much optimism.

Much the same is true for apartment buildings, but even here, there are growing signs of recovery. In particular, the 1994 federal budget resurrected and made permanent a subsidy program for low-income housing that is already beginning to lift multifamily housing starts.

Confirming the notion that construction and manufacturing will propel further gains in the economy, the index of leading indicators rose 0.5% in November, the fourth consecutive advance (chart). Eight of the 11 gauges pointed to growth, while only three registered weakness. The biggest positive contributor was a drop in initial jobless claims suggesting further gains in the labor markets.



Undoubtedly, economic growth in this quarter is unlikely to match last quarter's robust pace, to be reported by the Commerce Dept. on Jan. 28. Fourth-quarter growth near the high end of the 4%-to-5% range now seems possible. However, as long as the weather doesn't knock the data for a loop, as it did last year, the economy's momentum suggests that any first-quarter growth surprise could be on the strong side, not the weak.

THE WEEK AHEAD

PRODUCER PRICE INDEX

Wednesday, Jan. 12, 8:30 a.m.

Producer prices for finished goods probably were unchanged in December, the same performance as in November, according to the median forecast of economists surveyed by MMS International, a unit of McGraw-Hill Inc. Higher tobacco prices offset the drop in energy costs. Excluding food and energy, prices likely rose a modest 0.2% last month.

CONSUMER PRICE INDEX

Thursday, Jan. 13, 8:30 a.m.

Consumer prices likely increased by just 0.2% in December, the same gain as in November. The core rate of inflation,

which excludes food and energy, probably advanced 0.3%, also the same increase as in November. If so, core inflation would end the year at a 3.2% pace, the lowest in 21 years.

RETAIL SALES

Thursday, Jan. 13, 8:30 a.m.

The MMS economists expect that retail sales in December increased a healthy 0.5%, after a 0.4% gain in November. Excluding cars, receipts likely also rose 0.5%, the same advance as in November.

INDUSTRIAL PRODUCTION

Friday, Jan. 14, 9:15 a.m.

Output at the nation's factories, mines, and utilities probably rose 0.4%, lifted by

increased mining activity following the end of a coal miners' strike. Auto production boosted December output as well. Increased vehicle output also contributed to the 0.9% jump in industrial production in November. Last month's capacity-utilization rate probably rose to 83.2%, from November's 83%.

BUSINESS INVENTORIES

Friday, Jan. 14, 10 a.m.

Business inventories were probably down a small 0.1% in November. Factories have already reported a small 0.1% rise in their stock levels, but the solid gain in retail sales suggests that store inventories were drawn down. In October, inventories were unchanged.

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POLICIES OF DECEPTION?

INVESTIGATIONS OF MISLEADING SALES TACTICS ROCK THE INSURANCE INDUSTRY

Thousands of nurses read the pitch: If they would just provide their name and date of birth, they could learn about "something new, one of the most widely discussed retirement plans in the investment world today." The Nurses Guaranteed Retirement Savings plan offered "high money market interest rates...access to the cash fund...deposits that could be made monthly." To sign on, recipients had only to send back the form to the "nursing representative" who signed the letter.

Sounds innocent enough. But such whole-life solicitations are at the heart of the widening scandal hitting Metropolitan Life Insurance Co. and other big insurers. At least 13 states are investigating allegedly mis-

leading sales practices by MetLife agents, mainly for national mailings made from its Tampa office. MetLife says it is cooperating.

Now, the scrutiny is spreading. Misleading sales literature for whole-life insurance policies, allegedly used by agents of New York Life Insurance Co. and Prudential Insurance Co. of America, has surfaced in state insurance-department offices. A New York Life spokesman says the company is cooperating with an investigation by the Florida Insurance Dept. and has hired a law firm to investigate. He says he is unaware of a New York inquiry. A Prudential spokesman says it has received an inquiry from New York about an agent's sales letter and has pulled the unauthorized let-

ter. "We don't expect to have the same type of problem that we've read about," he says.

Few regulators believe the scandal will stop there, however. "There's no doubt in my mind that the scope of this is broader than just MetLife and some other companies mentioned," says Salvatore R. Curiale, New York's superintendent of insurance. "I think market conduct and misleading sales practices will be the major issue for life companies in 1994." Curiale is mailing a sternly worded letter to 147 life-insurance companies urging them to beef up internal controls of sales personnel. Adds Florida insurance commissioner Tom Gallagher: The investigations are "putting pressure on the industry to clean up its act."

At the heart of the scandal are whole-life insurance policies—long sold as prod-

WHY THE METLIFE SCANDAL COULD WIDEN

From a seemingly isolated incident in Florida, the MetLife scandal just keeps getting bigger. Here's why the insurance industry is potentially vulnerable to abuses:

DATA BUSINESS WEEK

COMPENSATION SYSTEM

Short-term pay incentives favor the sale of whole-life insurance, while investment plans have more consumer appeal. So agents are tempted to misrepresent whole-life policies as retirement or savings plans.

acts consumers can use to fund retirement, which, indeed, they can. The problem is that with competition for consumer dollars becoming more intense, insurers' sales tactics have become increasingly aggressive. Insurance agents, competing with banks, mutual funds, and others, "are looking for a competitive edge," says Lawrence G. Mayewski, senior vice-president at rating agency A. M. Best Co. "At times, it's fair to say that they might step over the line." In such cases, consumers can get a shock if they need ready cash from a policy: Early on, much of their money goes to commissions and expenses.

Why the temptation to cloak whole-life insurance products as savings plans? Consumers respond better to such offers, but whole-life policies can be far more profitable for agents and companies. MetLife agents can get up to 55%, or \$550 on a \$1,000 premium, as a commission for selling a whole-life policy. By contrast, an annuity earns them about 2% of the face amount in the first year, or \$20 on a \$1,000 investment.

DAMAGE. Insurers contend that abuses aren't widespread. "There are 230,000 agents out there," says Gene Grabowski, spokesman for the American Council of Life Insurance, a Washington-based industry group. "Twenty agents can do a lot of damage to the business if they have good mailing lists." Adds Harry P. Lamen, MetLife's chairman: "So far as MetLife is concerned, we've taken care of the problem and are looking forward to moving ahead."

Indeed, MetLife feels it has responded aggressively. On Dec. 27, it expanded

an earlier refund offer to include 40,000 policyholders nationwide, up from the original offer to 18,000 policyholders in Florida. It dismissed a star agent, along with six other executives, including a senior vice-president from the home office. And it announced a reorganization and an "enhanced" compliance unit.

Some of those dismissed, however, contend they're scapegoats. And indeed, measures taken in the past to address abuses seem less than adequate. A 1991 internal auditor's report congratulated the Tampa office "for [its] past and present contribution to the overall benefit of MetLife." After that, the main concern was that "pre-approach letters" contained unauthorized language that could lead to "negative publicity." The report noted an order from North Carolina nixing such letters.

The memo's cautions apparently didn't end the use of misleading language. By mid-1993, Florida regulators were investigating. At first, MetLife denied wrongdoing. But eventually, as it launched its own probe, MetLife acknowledged problems. Some brochures that the company now concedes were misleading were found to have been produced in the home office. And misleading literature was found to have been used outside Tampa.

The question now is, how far will the scandal spread? New York Life says that

in December, it found that one of its agents in Florida had copied a misleading MetLife sales letter. The company says about 4,000 such letters were sent out, but no sales were made. New York Life notified Florida regulators and has hired an outside law firm to help with an internal investigation. Prudential's spokesman says it has "all kinds of control procedures, and unauthorized letters are taken out of circulation."

Life insurers are sure to come under more scrutiny. Senator Howard M. Metzenbaum (D-Ohio), chairman of the Subcommittee on Antitrust, Monopolies & Business Rights, plans a hearing on deceptive sales practices by life insurers later this month.

Meanwhile, MetLife has legal woes. Some nurses in Florida are trying to lodge a class action. While the company recently made a confidential settlement with two employees who sued under the whistle-

blowing statute, other wrongful-dismissal suits by employees are pending.

Before long, the scandal may give new meaning to MetLife's slogan: "Get Met: It Pays." Already, the company has paid \$11 million to refund policies made out of the Tampa office, and it projects costs of up to \$30 million for its expanded offer. But despite such efforts, MetLife's cuddly mascot, Snoopy, could spend more time in his doghouse this year than in his usual pose on top of it.

By Suzanne Woolley in New York and Gail DeGeorge in Miami, with bureau reports

Agents can get a first-year commission of 55%, or \$550 on a \$1,000 premium, for a whole-life policy. Selling a \$1,000 annuity gets them 2%, or \$20

FRAGMENTED REGULATION

Politically potent insurers have avoided federal regulation, and states can rarely muster the resources needed for extensive investigations.

INADEQUATE CONTROLS

Lack of comprehensive screening systems and other internal safeguards can allow rogue agents to deviate from rules for years before being caught.

INCREASED COMPETITION

With mutual funds, banks, and securities houses all stepping up efforts to attract long-term investment dollars, insurance agents are under pressure to respond competitively.

MCI TAKES ON THE BABY BELLS —AND EVERYONE ELSE

It plans nothing less than reshaping the industry to suit its ambitions

For the \$90 billion local phone business, it's a declaration of war. MCI Telecommunications Corp., the company that ushered in long-distance competition over a decade ago, on Jan. 10 announced plans to do the same for local service. Coming from a feisty competitor that helped spur the breakup of the Bell System, it's a challenge that has to be taken seriously. And it's one that could have sweeping consequences for consumers, regulators, and rivals such as AT&T, Sprint, Bell Atlantic, and Time Warner.

MCI's strategy, spearheaded by Chief Executive Bert C. Roberts Jr., involves spending \$2 billion to build local phone networks in 20 cities over the next few years, including New York, Los Angeles, and Atlanta. That's just the start. Using old telegraph rights-of-way it bought from Western Union Corp. four years ago, MCI one day hopes to provide local service in 200 cities.

HISTORIC ASSAULT. That's only part of the \$20 billion, six-year investment plan MCI announced. Roberts also unveiled a grand—if vague—scheme to turn MCI's network into an information superhighway. That plan is impressive, though



ROBERTS WANTS LOCAL NETWORKS IN 200 CITIES

less so than it seems at first. MCI says it would have spent half that \$20 billion anyway for normal upgrades. And some of that money would come from unnamed partners, Roberts says, such as cable-TV companies. MCI already has one major partner: British Telecommunications PLC agreed last year to invest \$4.3 billion in exchange for a 20% MCI stake. For the short-term, Roberts' main goal may be little more than defining MCI's position during the information highway debate.

Still, Roberts may well force major changes in the telecommunications industry. That's because a key element of his plan is to roil regulators and competitors enough to force the overturning of the rules governing local phone service. He says MCI will launch "a historic assault on the local monopolies." And MCI's move-with-a-vengeance into local phone service could be a catalyst.

Over time, building its own local network could give MCI a cost advantage over AT&T, Sprint, and other long-distance rivals. Because they don't own lines into homes and offices, these companies must pay the Baby Bells and other local companies to complete their

long-distance calls. Such "access charges" cost the long-distance companies almost half their revenues. If MCI could use its own local network to complete calls, at least for major business customers, it could slash the \$5.4 billion it paid in access charges last year.

But MCI has bigger plans. It eventually wants to become a full-fledged local phone company, switching calls from one place to another like the Baby Bells do—something barred by regulations in most states. Roberts says the company will pry open this market, a move that could benefit consumers with lower local rates just like long-distance competition did for long-distance rates.

OLD RULES. The reaction from the Baby Bells has been swift. BellSouth, Southwestern Bell Corp., and their siblings say it is unfair that MCI can enter their markets while they can't compete in long distance. And if MCI really wants to be in their markets, they argue, it should be forced to serve low-profit rural and poor local customers, as the Baby Bells do. MCI's response: Until there is true local competition—which it says may take a decade—the Baby Bells should be barred from long distance.

Still, MCI's maneuvering is one more sign that the nation's communications laws are woefully inadequate. MCI's announcement, coming after such mega-deals as Bell Atlantic Corp.'s \$12-billion plus agreement to buy cable giant TeleCommunications Inc., "is strong evidence that local competition is more than an abstract policy concept," says Rep. Edward J. Markey, who heads a key House subcommittee overseeing revamping of the nation's communications regulations. In fact, analysts suggest MCI's belief that the barriers will be eliminated soon, as Markey has pro-

MCI LAYS DOWN THE GAUNTLET

MCI With its announcement that it will spend \$20 billion over six years on moving into local phone and wireless service and building an information highway, MCI is posing a huge challenge to communications rivals. Here are the repercussions:



REGULATORS MCI's move is another challenge to the nation's outmoded communications laws and regulations. It may speed up efforts to change them.



THE BABY BELLS They will face the most serious challenge yet to their lock on the \$90 billion local phone market. To offset the new competition, the Bells will press lawmakers to allow them into the \$55 billion long-distance market.

AT&T AND SPRINT Once MCI's new local network is completed, it could have a major cost advantage over long-distance rivals. AT&T will likely make moves to enter local service, too. Sprint, meanwhile, may boost its local presence.



CABLE COMPANIES Outfits such as Time Warner and Comcast may accelerate plans to offer local phone service. Alternatively, they could seek an alliance with MCI or another long-distance carrier.

WIRELESS CARRIERS MCI could use its new local network as the backbone of a nationwide wireless service. That would create new competition for McCaw Cellular, the Baby Bells, and others.



DATA BUSINESS WEEK

posed, may have prompted its move.

The plans of the No. 2 long-distance carrier could put American Telephone & Telegraph Co. and Sprint Corp. at a major disadvantage. AT&T pays about \$14 billion a year to local phone companies to complete its calls. While MCI offered to sell its local-access service to AT&T, Sprint, and others, the rivals wouldn't enjoy the same edge as if they owned it themselves. "We're never going to let them have a cost advantage," said an AT&T spokeswoman. She said AT&T would not block MCI's plan, but didn't say what it could do to match it.

MCI'S BIG PLANS INCLUDE OFFERING CONSUMERS THOUSANDS OF MOVIES AT THE TOUCH OF A BUTTON

Many industry watchers believe AT&T's strategy is evident in its pending purchase of McCaw Cellular Communications Inc. Through McCaw, AT&T could bypass local phone systems by completing long-distance calls wirelessly. But such a scheme may never account for the majority of AT&T's calls. That's why some analysts think AT&T may build its own local-access service or buy into one.

OVERPROMOTION? Sprint, meanwhile, already offers some local service through its own local companies and those it acquired through its Centel Corp. merger. William T. Esrey, CEO of the No. 3 long-distance carrier, says MCI's plan should be viewed much the same as plans for local-phone access that have been announced by cable-TV, cellular, and other companies: "positively, but without expectations of near-term impact." Esrey also sneers at Roberts' scheme to build an information highway: "MCI is very good at packaging announcements that make mountains out of molehills."

Over the longer haul, though, MCI's local-service strategy may pan out. And its benefits could be many. It could allow the company to go into wireless services, for instance. MCI plans to use the fiber-optic lines it will install in urban areas as the backbone for a new generation of wireless phones, called personal communications services (PCS).

The upshot: MCI has upped the ante once again. If it comes even close to pulling off its ambitious projects, MCI will, for the second time, have forced a huge shift in the nation's telecommunications system—one that could usher in changes more profound than the Bell system breakup a decade ago.

By Bart Ziegler in New York, with Mark Lewyn in Washington and bureau reports

WALL STREET

SORRY, THIS YEAR YOUR BONUS IS ONLY...\$5 MILLION

The hefty handouts at Goldman Sachs herald Wall Street's banner year

Wall Streeters raking in bonuses like pirates? Little surprise there, after the securities industry's third year of record profits. But the size of 1993's hike is really eye-popping: Year-end bonuses were about 30% higher in 1993 than they were in 1992—a year in which bonuses grew by 20% to 25%. "This year has really proved that there is no limit to Wall Street pay," says Alan Johnson, managing director of Johnson Associates, a New York executive search firm.

What do those increases add up to? A

lot. Hundreds of year-end bonuses of more than \$3 million are being paid to the top managing directors and partners at investment banks, says Johnson. The best place to work for the big bucks: Wall Street's most profitable firm, Goldman, Sachs & Co., which offered bonuses of at least \$5 million each to its 160 partners, executive recruiters say. The year ended Nov. 30, 1993, was Goldman's best ever, with an estimated \$2.7 billion in pretax profits. That bounty helped Goldman's partners increase their capital by an estimated \$880 million.

LIKE BANDITS. Who gets the most? Wall Street's true kings of compensation last year were hedge-fund managers such as Julian Robertson, who heads Tiger Management, and George Soros, who runs the Quantum Fund. They had a spectacular 1993, posting returns of about 70% on their multibillion-dollar funds, says one knowledgeable hedge-fund adviser. With a 15%-to-20% cut of investment gains and annual management fees of about 1% of assets, the top hedge funds reaped profits of hundreds of millions of dollars. And a fund's manager gets the lion's share of that, Wall Streeters say.

After superstars such as Robertson and Soros, traders will take home 1993's biggest bonuses, with the fixed-income side netting a larger share—thanks to

higher profits—than the equity side, says Perrin Long, research director at First of Michigan Corp. Pros working in emerging markets and in derivative products also will do well, adds Joan Zimmerman, a principal of executive search firm G.Z. Stephens. Traders of mortgage-backed securities who escaped the volatile market were rewarded, too. One example: Warren J. Spector, Bear, Stearns & Co.'s head of mortgage-backed-securities trading, raked in \$11 million in bonus and long-term compensation, the firm's proxy says.

In 1993, however, even the not-so-top-dogs made out like bandits. For the first time in several years, hundreds of investment bankers who aren't partners will clear the million-dollar bonus hurdle, says Stephens' Zimmerman. And, says Johnson, even junior investment bankers five years out of business school will take home bonuses of \$250,000.

What about Wall Street's plebeian secretaries or back-office clerks? If

they were lucky enough to be at Goldman Sachs, they garnered 30% of their annual salary in bonuses. That's up from the 25% bonuses paid to salaried workers last year.

In 1993, clearly, there was plenty to spread around. Pretax income for securities firms reached \$8.8 billion last year, estimates the Securities Industry Assn., which tracks New York Stock Exchange members. That shatters last year's record-breaking \$6.2 billion.

Just how fat and happy are Wall Streeters this year? Many of them aren't even returning headhunters' calls, says one investment banker. Ah yes, the sweet smell of money can go to anyone's head. Now, can Wall Street extend its string of great years to four?

By Amey Stone, with Leah Nathans Spiro, in New York

A LOT LIKE THE '80s, ONLY BETTER



KMART: SLICK MOVES—OR RUNNING IN PLACE?

amid many changes, it's going back to a strategy put on hold in 1992

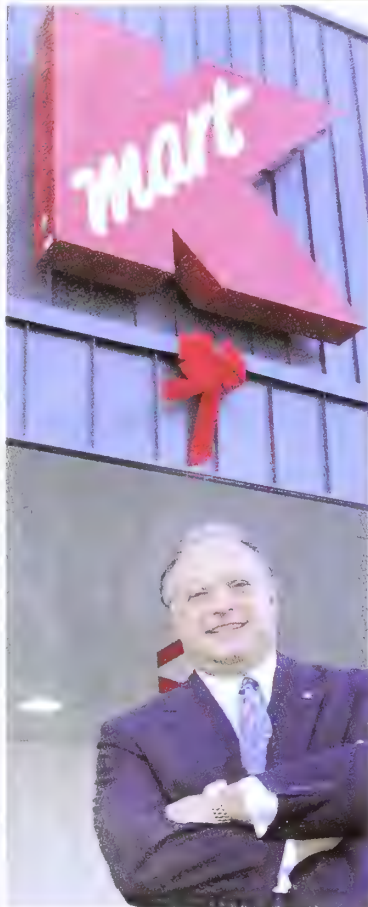
Attention: Kmart watchers! The nation's No. 2 retailer has another new strategic direction. For now, anyway.

That may not have been the message that Joseph E. Antonini, Kmart Corp. chairman, president, and chief executive, intended to send when he announced a barrage of strategic moves on Jan. 5. But it might as well have been.

Kmart, Antonini said, plans to ask its shareholders to approve selling off stakes of 20% to 30% in each of four specialty-retailing operations. It also will take a \$1.3 billion pretax write-off to cover various restructuring charges, in the fourth quarter already burdened with soft results.

HYPERFLOP. But the corporate shakeup didn't end there. Perhaps most important, Antonini ended a self-imposed year-old freeze on plans to refurbish, expand, or relocate Kmart's aging core stores, even as he continues to experiment with banking new Super Kmart Centers—megaretail stores that sell both groceries and Kmart's traditional discount wares under the same roof.

Refocusing on the company's core Kmart discount stores may well be the right move for Antonini. After all, as he says, those stores will always account for 80% to 85% of Kmart's sales. Kidder, Peabody & Co. analyst Michael Exstein: "They have to make their own discount-store business. If they are, and that's good. But come to us in two years and decided to change again." Ultimately, changing direction is



ANTONINI: SELL-OFFS, WRITE-OFFS, EXPANSIONS, AND REMODELING

a habit at Kmart. It started in the early 1980s, when the chain bought two regional cafeterias and opened the Designer Depot chain of off-price apparel stores. Those were sold in 1986.

The zigzagging continued after Antonini took the chairman's reins in 1987. In March, 1988, he bought a 51% stake in Makro, a chain of four warehouse stores. When asked at the time what was next, he answered: "drug-stores"—presumably, to join the Pay Less Drug Stores Kmart had acquired in 1985.

Instead, he devoted himself to his plans for "American Fare," a hypermarket that opened five years ago in Atlanta. The idea flopped when customers found its huge size intimidating. Plans for at least three more hypermarkets were canceled.

Zigzagging back to warehouse stores, Antonini bought PACE Membership Warehouses Inc. in 1989. But it turned out to be a money loser, and he sold off PACE last December to archrival Wal-Mart Stores Inc.

And what about those drugstores? Kmart ditched Pay Less a month before it sold PACE.

So what is Kmart into these days? In 1990, it bought the Sports Authority Inc. athletics-ware stores and OfficeMax Inc. office-equipment chains. In October, 1992, it added the Borders Inc. bookstore chain, just weeks before its planned initial public

offering. Today, Borders shares top management with Kmart's Waldenbooks Inc. unit, although Antonini vows to keep the two distinct. For good measure, Kmart picked up 13 department stores in the Czech Republic in May, 1992.

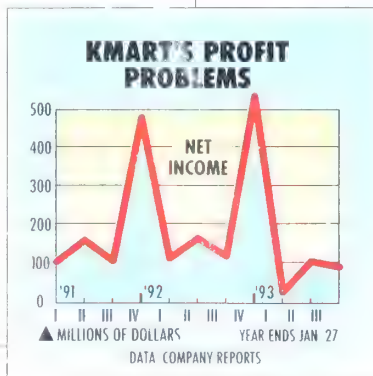
Antonini is clearly infatuated with specialty retailing. At Kmart's 1988 annual meeting, he promised that by 1990, 20% to 25% of Kmart's sales and 15% to 20% of its profits would come from specialty retailers. He has come close to his promise. In fiscal 1991, the specialty-retailing group accounted for 22% of corporate sales but fell short of the profits goal at 11%. Undeterred, Antonini has raised the targets to 30% of sales and 25% of profits by the end of fiscal 1995.

MAKEOVERS. Meanwhile, Antonini has been tending to the corporation's flagship stores with an on-again, off-again makeover campaign. In February, 1990, Kmart launched a \$1.3 billion campaign to enlarge or refurbish 700 stores. Later, the effort was expanded to \$3 billion and 1,870 stores, with an additional 300 stores to be completely relocated to larger facilities. But in 1992, Kmart put the renovation plans for existing Kmart stores on hold while it pondered reentry in the superstore wars. Now, Antonini says results from the store renovations are so compelling that he is pushing ahead with the relocations and expansions. Compared with older stores, he says, the new-look ones show a 17% rise in sales and a 6% jump in amount spent per transaction. So far, 57% of the targeted stores have been refurbished, expanded, or moved. Under the new plan, the same 2,170 stores will be altered, but 500 more will be relocated and 800 more expanded. The company will likely deemphasize mere remodelings.

Still, Antonini isn't through tinkering. Despite the American Fare fiasco, Kmart in 1991 launched a new superstore in Medina, Ohio, designed to be smaller and less confusing. The 17 "Super Kmart's" opened so far, with about 170,000 square feet of space vs. 115,000 square feet for a regular Kmart, are "exceeding expectations," says Antonini.

Kmart will proceed with plans for an additional 75 new stores next year, then pause to evaluate their performance. "We're still in an experimental basis," concedes Antonini. If they do well, Kmart likely will add more. Unless Antonini comes up with a new idea by then.

By James B. Treec in Troy, Mich.



THE CARVING OF ELSIE, SLICE BY SLICE

Unable to sell the whole animal, Borden peddles some money-losers

In the takeover-crazed '80s, a troubled, sprawling, and barely profitable company like Borden Inc. would have been a prime target to be bought, split up, and sold off by some raider. These days, Borden has the opposite problem: Its board has tried in recent months to find a buyer for the company, but couldn't find any takers.

Unable to sell itself whole, Borden is taking another tack: On Jan. 5, it announced that it will try to remake itself as a viable smaller company by slashing costs, boosting marketing efforts, and shedding money-losing businesses such as its \$800 million domestic snack unit. Wall Street, which had been hoping for a weeping breakup and sale of Borden, did not take the news well. buoyed slightly in recent weeks by takeover speculation, Borden's stock sank 13%, to \$15, in the news, which included a \$567 million after-tax restructuring charge. But, admits Prudential Securities Inc. analyst John M. McMillin, who had estimated recently that a broken-up Borden was worth \$22 a share: "They really had no other alternative. They can't sell what [potential acquirers] won't buy."

JAMS AND CLAMS. Feelers from potential bidders for all or part of Borden have quickly come to naught. In late December, rumors that Anglo-American conglomerate Hanson PLC was mulling an offer were snuffed when Borden announced it was not discussing a merger or sale with anyone. Earlier on, financier Henry R. Kravis, who controls food giant RJR Nabisco Holdings Corp., apparently considered a bid for pieces of the \$3.8 billion food-and-chemicals company, though not for long. Kravis attended a Borden board meeting last fall, analysts say, but hasn't expressed interest since. Kravis' office won't confirm the visit or comment on his or RJR Nabisco's interest in the company.

Why is Borden so hard to sell? The main problem is that the company is a poorly integrated conglomeration of wildly dissimilar businesses, from forest-product adhesives to Cheez Doodles to Meadow Gold milk. Revenues and earnings have been falling steadily. Its snack and dairy operations are operating at a loss, making them rather unattractive to a potential buyer. Borden's grocery business has some small star brands such as Cracker Jack and ReaLemon, but also

company has a staggering debt load of \$2.4 billion (now under review by Moody's for a possible downgrade) and shareholders' equity of only about \$300 million. But shareholders such as Lens Inc., a Washington investment group that owns 87,000 Borden shares, are hoping Borden can avoid selling off its pieces on the cheap in a distress sale. "As badly as I want [Borden's management] to sell off pieces and possibly just break up the company, they're not ready for that right now," says Nell Minow, a Lens partner.

After three sweeping restructurings since 1989, Borden's shareholders are understandably disgruntled. But they were slightly mollified by Borden's Dec. 9 move to replace Chief Executive Anthony S. D'Amato, who had held the job for two difficult years, with Shames, a food industry veteran who had been

hired as Borden's president in June. The board also gave ground on some governance issues and named outside board member Frank J. Tasco, a retired CEO of Marsh & McLennan Cos., as chairman.

SNACK ATTACK. Still, even Borden's plans to sell off the snack division and some grocery brands will be tough going. The snack industry is dominated by PepsiCo Inc.'s Frito-Lay, a fearsome competitor, and Borden may end up selling its snack operations piece by piece. Anheuser-Busch Cos. representatives have been spotted in recent weeks kicking the tires of some of Borden's Midwestern

BORDEN ON THE BLOCK: WHAT ARE THE PIECES WORTH?

On Jan. 5, Borden put some of its businesses up for sale. Because of its financial problems, Borden is likely to entertain any reasonable offer for almost anything it owns.

MISC. GROCERY
Brands such as Cracker Jack and ReaLemon
\$750 MILLION

DAIRY
Meadow Gold milk, Lady Borden ice cream
\$600 MILLION

PASTA & SAUCES
Creamette, Anthony's pastas, Classico sauce
\$1 BILLION

NONFOOD CONSUMER PRODUCTS
Elmer's and Crazy Glue
\$1.75 BILLION

INTERNATIONAL SNACKS
Riley and Groovers chips in England
\$200 MILLION

NORTH AMERICAN SNACKS
Jays and Wise potato chips, Cheez Doodles
\$300 MILLION

FOOD SERVICE
\$130 MILLION

■ ESTIMATED VALUE

DATA: PRUDENTIAL SECURITIES INC., BUSINESS WEEK

obscure offerings such as Bama jams and Doxsee canned clams, which Borden says are now on the auction block.

Of course, any asset will sell if it's priced low enough. Borden Chief Executive Ervin R. Shames insisted to investors on Jan. 5 that "we are not going to run a fire sale." But some analysts expect that Borden may be forced to sell some of the businesses it would prefer to keep in order to raise cash. The com-

"We are not going to run a fire sale," the CEO insists—but analysts wonder how far Borden will go to raise cash

pany has a staggering debt load of \$2.4 billion (now under review by Moody's for a possible downgrade) and shareholders' equity of only about \$300 million. But shareholders such as Lens Inc., a Washington investment group that owns 87,000 Borden shares, are hoping Borden can avoid selling off its pieces on the cheap in a distress sale. "As badly as I want [Borden's management] to sell off pieces and possibly just break up the company, they're not ready for that right now," says Nell Minow, a Lens partner.

In the midst of finding a buyer for some of Borden's least attractive assets, Shames and the cadre of new managers he has hired also face the daunting task of trying to breathe life into what will remain under the Borden banner. Pessimists have rarely been wrong about Borden in recent years. Judging from the number of potential suitors that have looked over its businesses and passed, the company's prospects seem dicey. "I wonder if all the king's horses and all the king's men can put Borden back together again," muses McMillin. Given Borden's long decline, Shames doesn't have history on his side.

By Elizabeth Lesly in New York

We didn't sleep

For the last decade or so, a lot of companies have been waltzing out their versions of the IBM® clone. Some have

PC revolution.

bells, some have whistles, but peek under the fancy tent and all you see are the same old boxes.

We decided that our PCs were going to be different. Beyond cloneware, beyond what everyone else says can and may be done. It's time someone stepped beyond the box.

Beyond the box means different thinking. After a quarter century of making computers, we know you need more than just a box

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Beyond the box means expandable into the future. Don't get boxed in by a system that can't grow with you or keep up with the changes in the state of the art.

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through the

tops through notebooks, microtowers, and servers.

Beyond the box means choice of architecture. You can continue with CISC or switch to RISC, taking whatever path makes sense.

Beyond the box means service. Our service team of more than 30,000 dedicated



We took notes.

people are on call, onsite and remote, around the clock, around the world. Many of our customers rely on Digital to service all of their equipment, regardless of its manufacturer.

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MACY'S MANHATTAN FLAGSHIP: IF FEDERATED PREVAILS, MORE STORE CLOSINGS ARE LIKELY

HAPPY NEW YEAR, MACY'S —YOU'RE UNDER ATTACK

Federated's surprise move could end the venerable chain's freedom

Talk about starting off the New Year with a bang. On Jan. 2, Federated Department Stores Inc. made a stunning announcement: It had purchased a large portion of R. H. Macy Co.'s most secured debt from Prudential Insurance Co. of America and was seeking a merger with the giant department store chain. In a blinding minute, Federated fired the first salvo in what is likely to be a nasty battle for one of the nation's preeminent—albeit bankrupt—retailers.

On Seventh Avenue, there's plenty of speculation about other interested parties, including chains such as Dillard Department Stores Inc. and May Department Stores Co. or shopping-center developers hungry for Macy's prime real estate. Two candidates, says Bill Adamci, senior vice-president in the real estate group at Lazard Frères & Co., are developers Melvin Simon & Associates and General Growth Properties. General Growth says it's not interested, and Simon and Dillard's couldn't be reached. May couldn't comment.

Meanwhile, Macy's executives, who also won't comment, are working mightily to stay independent. But the retailing world figures it will take another miracle on 34th Street for the venerable company to keep predators at bay.

Federated, having emerged from bankruptcy in 1992, seems to have the upper hand. Its newly purchased Macy's debt is collateralized by 70 of the chain's 110 stores. Along with its famous name, they are Macy's best assets. And Federated Chief Executive Officer Allen I. Questrom, who supervised Federated's emergence from Chapter 11 in just two years, may be able to persuade Macy's creditors and bankruptcy Judge Burton Lifland that he can pull Macy's out of bankruptcy faster than Macy's CEO Myron E. Ullman III can.

Clearly, the drama will reshape the world of big-league retailing. A combined Federated-Macy's would instantly become the country's largest department-store chain, with sales of more than \$13 billion and some 340 stores. Because of its size, a Federated-Macy's combination would have enormous leverage with merchandise suppliers and

Federated may be starting a bidding war that could pull in other big retailers and real estate developers

shopping-center developers. Savings, says Roz Kafri, an analyst at Grantchester Securities, could be at least \$150 million a year. Where would the cost reductions come from? For starters, there is Macy's SABRE inventory-management system, leased from Federated. Macy's pays Federated roughly \$70 million annually for the service.

HUNGRY EYES. Questrom wants Macy's badly. Although he denies that Federated already has a reorganization plan, he thinks he could get Macy's out of bankruptcy in about six months. "Maybe I'm being optimistic," he says. "If there are a lot of egos involved, this could go on for...whatever."

He pledges not to interfere with Macy's efforts to file a plan by its current Mar. 15 deadline. Still, Federated officials, confident they have more to offer Macy's creditors than Macy's current management does, are pressing their case in a series of meetings with creditors' committees. "I don't think Macy's can come up with a better plan," Questrom says, "but that's their option."

Macy's recent performance has been mediocre. CEO Ullman, who joined Macy's as chief financial officer in 1988, has aggressively cut costs but has been unable to pump up sales. Although Macy's November cash flow, at \$31.6 million, was nearly double its take in November, 1992, same-store sales were flat, a poor showing for the Christmas season. That makes creditors antsy. "Macy's has to show major progress, or else creditors will get very, very impatient in 1994," says Joe Amato, a managing director at Kidder, Peabody & Co.

Questrom figures he can leverage that impatience as he meets with Macy's creditors over the coming weeks. "With Federated in the picture, you could imagine a better outcome," says one large Macy's bondholder. But Robert Miller, an attorney at Berlack Israels & Liberman, which represents Macy's bondholders, isn't as enthusiastic. "Federated has bought debt, and that doesn't necessarily entitle them to anything but repayment of debt," says Miller. "Federated may end up with a large IOU rather than an equity stake or control."

If Federated does prevail, many Macy's stores are likely to close, and layoffs are inevitable. Still, at least one Macy's employee will emerge with a golden parachute. Ullman, who made more than \$1 million in 1993, could receive up to \$4 million in severance if Macy's is acquired prior to coming out of bankruptcy. But stay tuned. This is only Round One.

By Laura Zinn, with Phillip L. Zweig in New York

to treat symptomatic benign enlarged prostate:

Only one medicine can shrink the prostate.

PROSCAR.[®] (FINASTERIDE)

Until recently, there wasn't a medicine that could help the condition known as symptomatic benign prostate enlargement or BPH. But now there is PROSCAR, the first oral prescription medicine that can shrink an enlarged prostate.

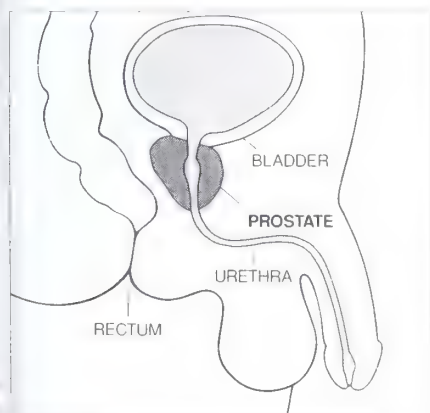
However, it is important to know the following: PROSCAR doesn't work for everyone. Even though your prostate may shrink, you may not see an improvement in urinary flow or symptoms. And you may need to take PROSCAR for 6 months or more to see whether it helps you.

How PROSCAR can shrink an enlarged prostate.

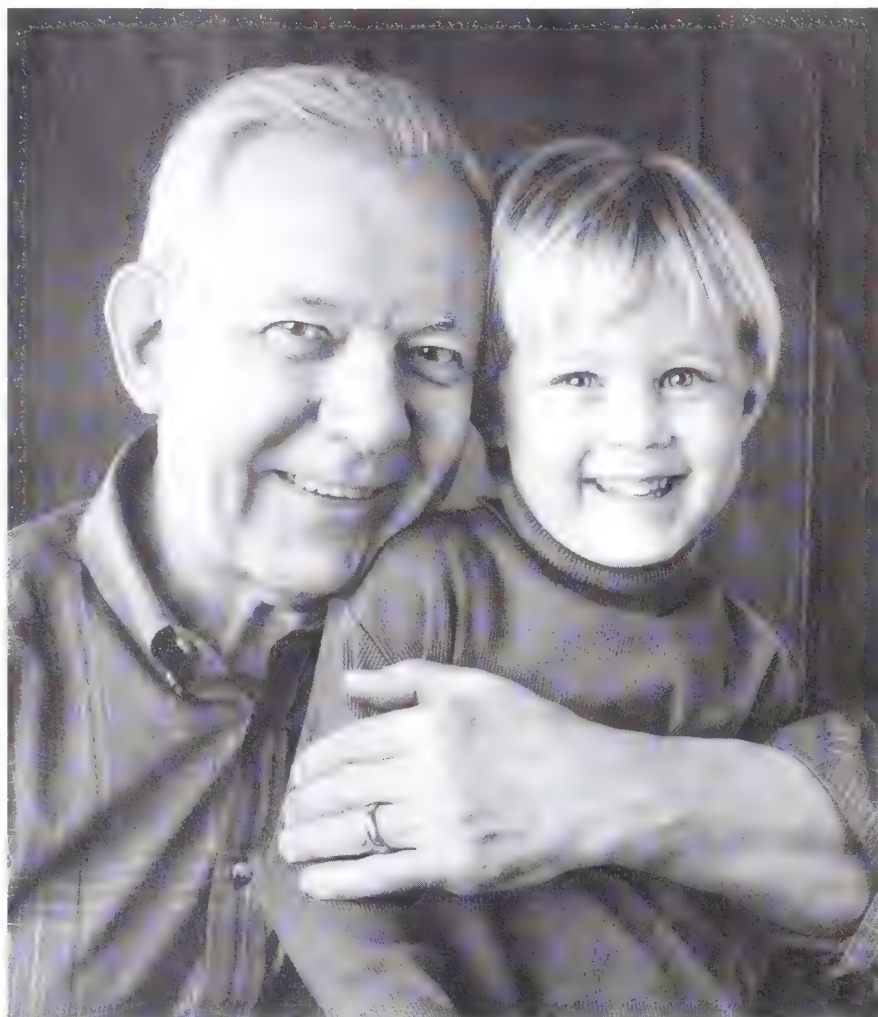
As a man ages, a key hormone can help cause the prostate to grow. PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, some men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

Why you should see your doctor soon.

Your doctor has several options for the treatment of symptomatic BPH: watchful waiting (monitor-



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.



ing the condition with regular checkups), medication, or surgery. It's important to see your doctor because the problem doesn't usually get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, have your family doctor or a urologist assess your condition and ask if PROSCAR is an appropriate treatment for you.

It is also important to have regular checkups. *While benign prostate enlargement is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Remember, only a doctor can evaluate your symptoms and their possible causes. So, if your urinary symptoms are bothering you, don't wait any longer. You may find that your enlarged prostate can be made into a smaller problem.

For more information about prostate enlargement and PROSCAR, call 1-800-635-4452 today.

TABLETS
PROSCAR 5mg
(FINASTERIDE)



PATIENT INFORMATION ABOUT PROSCAR® (Prah-s-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

• **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.

• **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.

• **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

• Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.

• You may need to take PROSCAR for six (6) months or more to see whether it helps you.

• Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

• **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.

• **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

• A warning about PROSCAR and pregnancy.

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

• **Sexual contact.** Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

• **Handling broken tablets.** Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

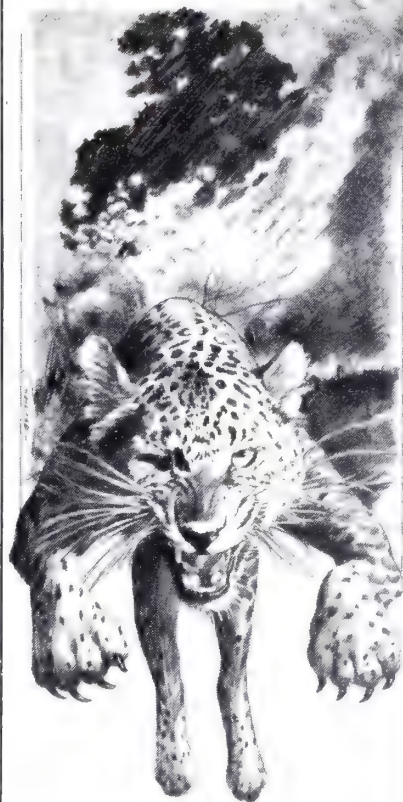
Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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THE BURNING MUST STOP NOW!



The world's rain forests are burning. And a wealth of wildlife is trapped in the fire's path.

Rain forests occupy just 2% of the earth's surface. Yet, these rain forests are home to half of the planet's tree, plant and wildlife species. Tragically, 96,000 acres of rain forest are burned every day.

You can help stop this senseless destruction. Right now you can join The National Arbor Day Foundation, the world's largest tree-planting environmental organization, and support Rain Forest Rescue.

When you join, you will help establish natural rain forest barriers to stop further burning and support on-site conservation management plans to protect threatened forests.

Each and every second, a rain forest area the size of a football field goes up in smoke. You'd better call now.



The National Arbor Day Foundation

Call Rain Forest Rescue NOW.
1-800-255-5500

SUNSET BOULEVARD FOR JACK VALENTI?

The Tinseltown lobbyist no longer wields the power he once did

These are tumultuous times for Hollywood. But through all the mergers, foreign acquisitions, and revolutionary technologies, one constant has been Jack Valenti, the film industry's silver-tongued lobbyist. The 72-year-old, glad-handing, former Lyndon Johnson aide is a throwback to a bygone era in both Washington and Hollywood. These days, he's out to prove he's no dinosaur.

It has been a tough year for Hollywood's point man in Washington. Valenti has been pummeled on Capitol Hill for his defense of television violence. And he lost a court battle over 23-year-old rules prohibiting networks from owning the shows they air.

In 1993, not even Valenti's best efforts were enough. Before President Clinton attended a \$50,000-a-plate fund-raiser in early December at the Los Angeles home of billionaire financier Marvin Davis, Valenti faxed memos to studio heads who attended. For 20 minutes, the moguls lobbied Clinton over Valenti's cause of the moment: relaxing European import limits on American-made films and TV shows.

ROCK OF GIBRALTAR. "Hollywood eventually lost that one. The curb held, despite an overall easing of limits in the General Agreement on Tariffs & Trade. Still, the industry fiercely defends Valenti. He's a Rock of Gibraltar," says Walt Disney Studios Chairman Jeffrey Katzenberg. "It's not his fault some anchors came by and blew up."

That's a big change for a man who as skirted disaster before. In the near-28 years since he left the Johnson White House to head the Motion Picture Association of America (table), Valenti's standing among lobbyists has risen to near-legendary status. He greases the wheels of Washington by inviting old-timers to some half-dozen special movie screenings each year—some doubling as fund-raisers for powerful committee chairmen. That has helped the movie biz hang onto special tax write-offs even as loopholes for other special interests have closed. In 1983,

Valenti and MCA Inc. Chairman Lew R. Wasserman persuaded industry alumnus Ronald Reagan to overturn a pending Federal Communications Commission decision to allow networks to make TV programs.

OSCAR, OSCAR. "The industry got things that it probably didn't deserve because of him," says former Columbia Pictures Chairman Victor R. Kaufman. Pulling down \$816,000 a year in salary, the nattily dressed Texan stokes his celebrity

interests. And major political players such as Disney Chairman Michael D. Eisner and Sony Pictures Entertainment Chief Peter Guber have direct access to a Hollywood-savvy Bill Clinton.

Valenti's biggest loss came during the GATT negotiations. Camped out in a Brussels hotel room, he funneled notes to U.S. Trade Representative Mickey Kantor. The French refused to compromise, even when Valenti offered to remove restrictions only on Hollywood imports linked to new technologies. "Their position was rigid and inflexible, which was part of their strategy," complains Valenti. The crowning insult came later. When Hollywood finally lost, the call from Clinton went to MCA's Wasserman.

Valenti acknowledges his failures but says he feels no pressure to quit. "I have never been involved in any fight that I didn't think I did the best I could," he says. He plans to retire at the end of 1996, when his current five-

JACK JOSEPH VALENTI

PERSONAL Born 1921 in Houston. Married Lyndon Johnson's secretary, Mary Margaret Wiley. Children: Courtenay Lynda, John Lyndon, and Alexandra.

EDUCATION BA, University of Houston, 1946. MBA, Harvard University, 1948.

ROOTS Began his career at Humble Oil (now Exxon). Later founded an advertising company in Houston and befriended Lyndon Johnson. Named a special assistant by LBJ in 1963. In 1966, became president and



chief executive officer of the Motion Picture Association of America.

MPAA HIGHLIGHTS In 1968, responding to protests over sex, violence, and profanity in films, he helps establish movie ratings. In 1983, he helps to overturn a pending Federal Communications Commission decision allowing networks to own TV programs. In 1992 and 1993, he loses high-profile battles over cable reregulation, GATT, and television violence.

image by arriving at power lunches in a chauffeured limo and making an annual TV appearance on the Academy Awards. Even adversaries try to stay on his good side. After voting against the MPAA's position in a 1991 FCC debate, Commissioner Andrew C. Barrett dashed off a personal note. "I assume he may be mad at me," says Barrett.

However, there are signs that Valenti's act may be wearing thin. During recent congressional hearings, his invoking of the First Amendment's free-speech provision to defend TV violence ruffled many lawmakers. Moreover, the multinationals that now control Hollywood increasingly handle their own lobbying

year contract expires. Until then, he says, he'll continue to run the MPAA's \$45 million, 110-person operation.

Much of his time these days is spent on international operations. And with offices in Brussels, Singapore, and Rio, Valenti says his group spends nearly \$30 million a year just to protect Hollywood against video pirates. It's a long way from his beloved back rooms of Washington, perhaps. But given his recent track record, even the dark alleys of Bangkok must be a respite from the ego-bruising streets of D.C.

By Ronald Grover in Los Angeles and Mark Lewyn in Washington, with Bill Javetski in Paris and bureau reports

PORTRAIT OF A PROJECT AS A TOTAL DISASTER

Why American Airlines' new travel reservations system never took off

Perhaps it was a project doomed to collapse under great expectations. With much fanfare in the fall of 1988, AMR Corp., parent of American Airlines Inc., promised to revolutionize the hospitality industry by creating a reservations system that would leapfrog existing technology. With powerhouse partners Marriott, Hilton Hotels, and Budget Rent a Car backing the development of the then-\$500-million system, dubbed CONFIRM, AMR was also hoping to create a product that it could sell to other companies.

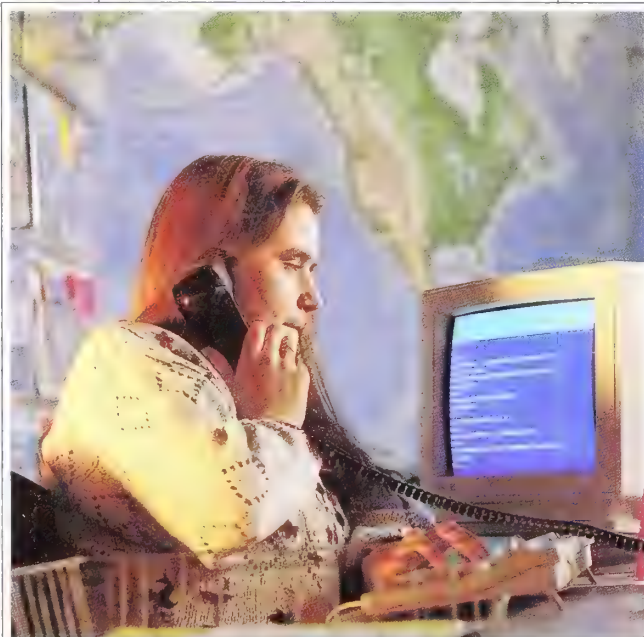
More than five years and millions of dollars in legal bills later, AMR is finally sweeping up the debris. The fiasco has tarnished its reputation as a technology leader, cost AMR a \$65 million write-off in 1992, and raised troubling questions about AMR's management. On Jan. 4, after a face-to-face meeting between AMR Chairman Robert L. Crandall and Budget CEO William N. Plamondon, Budget became the last partner to reach a tentative out-of-court settlement for an undisclosed sum.

The Budget settlement followed deals with Hilton Hotels Corp. and Marriott Corp., also for undisclosed amounts. But sources close to the case say AMR, facing damages of more than \$500 million, will pay a total of about \$160 million to its former partners.

The long-sought settlements, however, don't erase serious questions raised in the lawsuits, which could hinder AMR's continuing efforts to sell technology services to outsiders. Some of the thousands of court documents—including affidavits from former AMR employees and internal company reports—portray a project riddled with miscues from start to ignominious finish.

Court filings show a frenzy of finger-pointing. AMR's technology unit, AMR Information Services (AMRIS), fired the first shot by suing its partners for breach of contract in September, 1992, after admitting in April that the sys-

tem was as much as 18 months behind an already-delayed June launch. AMRIS accused its partners of sabotaging the system by submitting thousands of change requests long after the development plan had been completed. AMRIS also charged that the partners were attempting to exploit a fixed-price contract by trying to force AMRIS essen-



AMR lined up Marriott, Hilton, and Budget Rent a Car as partners—but wound up battling with all of them

tially to create separate systems for each partner instead of one common system. Even AMR attorney Gary R. Doernhoefer concedes that the structure of the deal—and AMRIS' dual role as partner and developer—was flawed. The partnership's board, not AMRIS, had authority over the project, he says.

Charges hurled at AMRIS by its former partners are equally damaging. In court documents, they contend that AMRIS deliberately concealed or misrepresented the project's problems long before the April, 1992, delay announcement. Blunt, hot-tempered Crandall seemed to play

into their hands by firing off a letter on Apr. 29, 1992, that informed his partners that "the individuals to whom we gave responsibility for managing CONFIRM have proven to be inept. Additionally, they have apparently deliberately concealed a number of important technical and performance problems."

At least eight project managers were subsequently fired—though the attorney for one says they were scapegoats. One manager later sued for defamation, and others reached settlements with AMR. Crandall wrote on July 13 to inform his partners that an "extensive investigation" found no concealment.

PROMISES, PROMISES. Marriott, Budget and Hilton charge that if Crandall was unaware of CONFIRM's woes before April, others at AMRIS knew but repeatedly failed to inform the partners. An outside review by an IBM unit ordered by AMRIS in April, 1989, concluded that "the CONFIRM project is in dire need of more critical review and immediate corrective action by AMRIS management. Not doing so will almost assuredly result in failure." The IBM team found employees involved in the project could not describe what was being developed, that quality control was lacking, and that project management was perceived as promising anything to keep the project moving. Marriott, Budget, and Hilton claim they never received the report—and thus stuck with the project, even though they had the right to opt out by September, 1989.

AMR says its partners had 130 employees working on the project, so concealment would have been nearly impossible. Doernhoefer also says AMR's partners never demanded copies of the IBM report but were told it was "very hard" on the project.

Will the CONFIRM debacle hurt AMR's \$1 billion information-technology services business? Rivals point to the failed project in their own marketing efforts. Says an executive at one rival technology company: "Our business is really reputation. You don't get in the business of suing your customers." Doernhoefer counters that the AMRIS unit's track record is generally good.

Of course, it's easy to criticize AMR in hindsight. But it's clear that the best AMR can salvage now may be some lessons in management and partnership.

By Wendy Zellner in Dallas

SUDDENLY, BIG AIRLINES ARE SAYING: 'SMALL IS BEAUTIFUL'

They're imitating the approach of such short-haulers as Southwest



WILL A POINT-TO-POINT STRATEGY UNDERCUT AIRLINES' LONG-HAUL BUSINESS?

Once the employees of United Airlines Inc. agreed in mid-December to swap wage concessions worth \$5 billion for 53% of the carrier's equity, the inevitable question followed: How are United's new owners going to fix their airline? Certainly big improvements are needed: The nation's largest airline hasn't made any money since 1990. Now, it looks as though the United deal could spur the first concerted move by the company and its rivals to counter short-haul competitors such as Southwest Airlines Co. Big airlines all face the same dilemma, and they all seem to be coming up with the same solution at the same time: overhauling money-losing short-haul businesses. To fight Southwest and similar short-haulers, United and other major carriers are borrowing heavily from Southwest's model: slightly lower wages, flexible work rules, and some version of Southwest's "point-to-point" route system, which ferries passengers to their final destination directly rather than first routing them through a hub.

TENSE. There's just one big rub: No big air carrier is sure how to marry a Southwest-style operation with a traditional "hub and spoke" structure, which relies on feeding passengers from nearby markets onto longer flights. The worry? The new service could undercut the long-haul business, causing massive losses. Insists American Executive Vice-President Robert V. Baker: "You probably can't do both." Risky or not, efforts to

revise short-haul operations are cropping up everywhere (table). Continental Airlines Inc. unveiled its version, dubbed CALite, last fall. USAir Inc. announced on Dec. 10 that it will reposition its short-haul business by slashing fares, boosting the frequency of flights between key cities, and improving employee productivity. The moves will affect about 20% of USAir's sales and could boost profits this year. And Delta Air Lines Inc. is expected to reveal plans for a revamped short-haul service later this year. Only American Airlines Inc. is not now pursuing a short-haul strategy. It is aiming for a 20% cut in labor costs, mostly from work-rule changes.

The pressure to change keeps getting more intense. Southwest's mid-December purchase of Morris Air Service spreads its reach into the Pacific Northwest, markets once the dominion of Delta and United. As if that weren't enough, America West Airlines Inc., one of the industry's lowest-cost carriers, has found new life. Investor Michael Steinhardt's offer to swap up to \$250 million for 80% of the carrier's equity, combined with the resignation of embattled Chief Executive Michael J. Con-

way on Dec. 31, should position the company to emerge from bankruptcy sometime in 1994.

United appears most able to meet the new challenges. The Dec. 15 deal freed the carrier to dump 20% of its operation into a low-cost, short-haul system dubbed "U2" by the union groups. U2 would be limited to flights of less than 750 miles, or 1,207 kilometers, but would benefit from steep cuts in wages. U2 pilots, for instance, would not only suffer the 15.7% pay cut the rest of their brethren are taking but would also see their wages chopped an additional 7.1%. Pilots could make up the difference, say union sources, by flying more hours.

"INCUBATOR." But despite widespread speculation otherwise, United isn't about to become a bigger version of Southwest. Once the deal closes in mid-1994, an experimental point-to-point system will be rolled out on the West Coast, where United has many strong short-haul markets. But elsewhere, it's likely United will simply use cheaper labor and flexible work rules to operate something akin to a commuter service to feed hubs in Chicago, Orlando, and Denver.

Why isn't United swallowing the Southwest system wholesale? The company won't comment about U2 yet. But Peter J. Otradovec, vice-president for planning at America West, points out that United would be foolish to forsake the profits it reaps by leveraging its hubs to ferry passengers to hundreds of destinations. What United mainly needs, he says, is lower costs. And that's what the new labor agreement provides. "It's a great deal," says Otradovec.

Just how good? Furman Selz Inc. analyst Raymond Neidl figures that if it took effect on Jan. 1, the overall wage cuts and the U2 operation could double United's 1994 operating margins to 11%, while the carrier's net income would jump 55%, to \$700 million. United won't achieve such numbers this year, though, because special charges from the buyout will hit earnings.

Given the potential gains, United's U2 is likely to spur similar moves by rivals. "It could be an incubator for more significant changes in work rules and procedures later," says Rutgers University management professor Joseph R. Blasi. Probably so. But for now, United and its rivals would be happy to pull off a successful test flight.

By Kevin Kelly in Chicago, with Wendy Zellner in Dallas and Aaron Bernstein in New York

SHORT-HAUL MANIA

- NOV. 16** Delta announces that it's studying whether to create a short-haul carrier to compete with low-cost rivals.
- DEC. 10** USAir says it will cut costs by redesigning its short-haul service.
- DEC. 13** Southwest acquires Morris Air in a \$134 million stock swap.
- DEC. 15** United's unions agree to swap \$5 billion in wage concessions for equity. The deal allows the carrier to set up a low-cost short-haul system.
- DEC. 23** Investor Michael Steinhardt offers \$250 million for 80% of America West Airlines, which would allow it to emerge from bankruptcy.

DATA: BUSINESS WEEK

Commentary/by Joe Weber

SHOULD NEW JERSEY DEEP-SIX THE SIXERS' BID?

It's the kind of deal that sports-starved communities dream about. For a mere \$150 million, give or take a few bucks, Camden (N.J.) could have the honor of calling the Philadelphia 76ers its hometown team. So why is Governor-elect Christine Todd Whitman offering a Bronx cheer to the plan to move the 76ers across the Delaware River? Simply put, she's not sure her state can afford the glamour of yet another pro sports team.

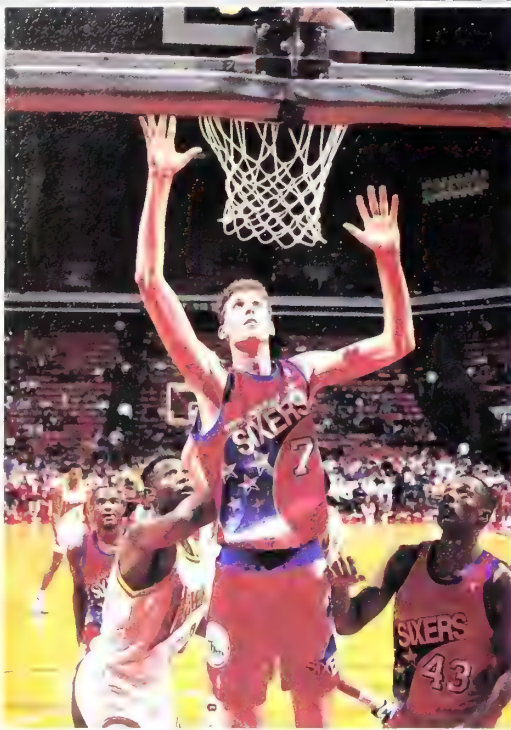
She might be right. In recent years, the quest for big-league status has led such cities as Baltimore, St. Louis, Jacksonville, Fla., and Charlotte, N.C., to pledge millions of taxpayer dollars in attempts to woo professional teams. The payoff likely will be mixed, at best (table).

BALLPARK BONANZA. Proponents argue that sports facilities eventually pay for themselves—and usually require little beyond initial public backing for the bonds that finance them. Even where the payback may be years away, backers say spin-off development of nearby restaurants and retail sites make the arenas cost-effective. Case in point: Baltimore, where a two-year-old publicly financed baseball stadium has boosted business in the touristy Inner Harbor.

But elsewhere, the payback from such public investments may be too distant and too slight. In Camden, for instance, a \$52 million aquarium has drawn well over 1 million visitors in two years, but has spawned little construction. If the private market makes such a judgment, is it really smart for government to second-guess it?

There are growing signs that financially strapped governments may be thinking twice before opening their piggy banks to wealthy team owners. In suburban Washington, a consultant told local officials they might not be able to recoup a \$100 million investment in a proposed baseball stadium. In Massachusetts, legislators are balking at a bill that proposes hanging on to the Red Sox and Patriots with a \$700 million convention and sports center.

And despite the NFL fever for



SHAWN BRADLEY MAY BE STAYING IN PHILLY

that swept Jacksonville before the team was awarded an expansion franchise last November, four council members opposed the deal struck with the team's owners. It calls for the city to finance the \$121 million renovation of the stadium—plus pick up what councilman John Draper estimates as \$1 million in annual costs for utilities, wages for game-day personnel, and other expenses. Jacksonville is left scrambling to find money to hire additional police officers and to finance a \$53 million port expansion. "I have a real philosophical problem with

this," says Draper. "We're subsidizing a multimillion-dollar, profitmaking organization."

Back in New Jersey, Whitman, who takes office Jan. 18, is balking at a term-end agreement reached by outgoing Democratic Governor James Florio to house Philadelphia's NBA franchise in a proposed new arena in depressed Camden. Florio staffers say no tax money would be "directly" involved, but Whitman has ordered an independent economic review of the plan. She promises 76ers owner Harold Katz an answer by mid-January.

WELFARE HOOPS? In all likelihood, says municipal-finance expert Sam Katz, New Jersey would have to subsidize the Camden deal. While financing details are being kept secret, the *Philadelphia Inquirer* reports that initial plans call for about \$144 million in state- and county-backed bonds, plus guarantees of \$7 million a year in revenue to the Sixers—with the promise that the state would make up any shortfall. Such terms would surely

run afoul of Whitman's vow that tax dollars not pay for arena construction or operations. What's more, any hit on the treasury complicates her promise to cut state income taxes 10% a year for three years for most residents.

The risk for Whitman is that she could be tarred as the governor who drove pro basketball away from a struggling city—which also happens to be Florio's hometown. Fortunately, it wouldn't be the first time New Jersey said no to pro sports when terms were not to residents' liking: In 1987, voters overwhelmingly rejected a proposal to pay for a baseball stadium to lure a team to the state. Other states should follow New Jersey's lead.

If Whitman can avoid laying out taxpayer funds, the deal may be worthwhile. Otherwise, she should send a message to team owners that taxpayers would rather cheer for pro franchises than pay for them.

Weber, based in Philadelphia, prefers the Phillies to the Sixers.

DESPERATELY SEEKING TEAMS

CAMDEN, N.J.

The Philadelphia 76ers want to move, but Governor-elect Christine Todd Whitman questions whether New Jersey can afford to lure the basketball team.

ST. LOUIS

Abandoned by the NFL's Cardinals, this city thought a new stadium would attract an expansion franchise. Still waiting.

BALTIMORE

The city is ready to build a publicly financed stadium at Camden Yards, but the NFL just said no to an expansion team. Will the Rams move from Los Angeles?

ST. PETERSBURG

Built a domed stadium in anticipation of acquiring a baseball team. No payoff yet. But the Tampa Bay Lightning plays hockey there.

EDITED BY THANE PETERSON

CLOSING BELL



1993'S TOP FUND HAS A MIXED RECORD

Last year was a golden one for investors who had money in Lexington Strategic Investments, a mutual fund that invests heavily in South African gold stocks. Its total return for the year: 265%, the best of 1993 for any fund. But LSI hasn't been such a great buy for long-term investors. Even for a gold fund, its performance has been abysmal. Indeed, BUSINESS WEEK calculates that, despite the fund's monumental success in 1993, a \$1,000 investment in LSI 10 years ago would be worth only \$409 today.

DATA: MORNINGSTAR INC.

NEW TALENT FOR TALIGENT—FROM HP

Taligent, the IBM and Apple software joint venture, was expected to announce on Jan. 6 that Hewlett-Packard plans to buy a 15% stake for an undisclosed amount. Taligent, founded in 1991 to develop operating system software, has been plagued by delays. With HP involved, Apple and IBM each will hold 42.5% of Taligent.

CEOs: THE ROSTER OF THE REJECTED

This is shaping up as the year of the short-lived executive appointment. On Jan. 4, William R. Howard re-

signed as the chairman and chief executive officer of troubled Trans World Airlines. Howard, 72, departed after six months on the job. His replacement is 68-year-old Donald F. Craib, former CEO of Allstate Insurance. The same day, Sara Lee announced that Cornelis Boonstra was leaving his post as chief operating officer, citing "personal reasons." He had the job six months. Then, on Jan. 5, Beatrice announced that its chairman, Jean Fugett Jr., had suddenly resigned after only a year. The \$1.6 billion food conglomerate has been under pressure from restive shareholders. Fugett, a lawyer and former NFL tight end, took over after half-brother Reginald Lewis died last January.

IS MARTY WYGOD MERCK'S ANOINTED?

More big doings in the drug industry: Martin Wygod, 53, founder of Medco, the drug-benefit company that was acquired by Merck in November, took the inside track in the race to succeed Merck chief Roy Vagelos this fall. On Jan. 4, Wygod was put in charge of a newly formed managed-care division, which operates Merck's U.S. and Canadian drug businesses. Separately, Bristol-Myers Squibb announced

HEADLINER

SOMBER MEMORIAL—OR PR PLOY?

Controversial penny-stock mogul Robert E. Brennan is back in the limelight—this time as a would-be philanthropist. Brennan has erected the Deathclock, a 3.5-story electronic billboard in New York's Times Square that on Jan. 1 began ticking off the number of guns and gun deaths in the U.S. Similar billboards are planned for Washington, Los Angeles, Miami, and Brennan's hometown of Newark, N.J. To fund the effort, he has pledged \$3 million, plus the winnings of his star racehorse, Dehere.

Although Brennan, 49, denies a personal motive, he re-

lates a family tragedy involving a gun. In 1969, Brennan says, his younger brother Kevin, 22, was shot and killed in the driveway of their parents' home. The boys' mother died from shock and grief, he says, on the day of Kevin's burial. Their father joined the priesthood in part because of the killing.

Whatever his motive, Brennan's image could use burnishing. He goes to trial on Mar. 7 in New York in a long-simmering SEC lawsuit alleging that his First Jersey Securities gouged customers during the early 1980s. Brennan says the charge is "nonsense."

By Joseph Weber



on Jan. 4 that it will pare 5,000 jobs over the next two years, on top of job cuts of 1,900 since 1991.

PENSION FUNDING UNDER THE GUN

Pension reform just got a boost. The Pension Benefit Guaranty Corp., the federal agency that insures pen-

sion benefits, was expected to report on Jan. 6 that underfunding of companies' pensions shot up 39%, or \$19 billion, in 1992. The new total: \$53.1 billion. The Clinton Administration will use the sharp increase as ammo in its call for tougher pension rules. Most of the underfunding, however, was caused by falling interest rates that cut into funds' investment earnings. Most of the underfunding was at 50 big companies; at General Motors alone, it jumped by \$8 billion.

ET CETERA...

- ▶ For the fourth year in a row, GM's North American executives didn't get bonuses.
- ▶ Obscenity concerns delayed Infinity Broadcasting's buyout of a Los Angeles FM station.
- ▶ MCA plans to build a \$1 billion-to-\$2 billion theme park in Osaka, Japan, by 1999.
- ▶ Citibank launched a Visa and MasterCard in conjunction with Apple Computer.

PHOTO FINISH



ONE STEP UP FROM MUZAK: SEARS HOPES TO SPRUCE UP ITS STODGY IMAGE BY SPONSORING PHIL COLLINS' SPRING CONCERT TOUR

PHOTOGRAPH BY JAMES ABBOTT; STEVE JEFFERS/AS; PHOTO AGENCY

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HEALTH CARE: COOPER'S COMPROMISE MAY CARRY THE DAY

By their public statements, you'd think Bill Clinton and Representative Jim Cooper (D-Tenn.) were the bitterest of foes. The President regularly has blasted the health-care plan promoted by the Tennessean for failing to assure coverage for all Americans. Cooper responds by warning that Clinton's plan loads business down with job-killing mandates. But behind the scenes, the Administration and Cooper are making compromise—a sign the health-care debate is getting serious. More extreme variations, from the Canadian-style single payer system favored by some liberals to the do-little approach favored by many Republican conservatives, are fading. Cooper and co-sponsor Representative Fred Grandy (R-Iowa) have staked out the bipartisan middle ground. And both the Clintonites and GOP leaders know that to prevail in the coming fight, they'll need many votes from Cooper-Grandy's centrist backers.

IN THE WINGS. Like Clinton, Cooper and Grandy would rely on regional health alliances, but they would allow many employers to opt out. Small businesses would be required to offer benefits to workers at group rates—but not to pay for them.

Only 57 House members are co-sponsors, but that understates the support for Cooper-Grandy. Many Democrats are "in the wings, but they're reluctant to draw the Administration's attention at this point," says Representative Nancy Johnson (R-Conn.). Republicans are waiting to climb aboard. But they're holding back "so Cooper-Grandy doesn't become Grandy-Cooper," says one insurance lobbyist.

The Administration's best hope to cut off the growing support for the moderate alternative may be to force fast action in the House. The White House wants a vote before Easter to get a quick win and crush Cooper," says an aide to Senator John H. Chafee (R-R.I.), whose own proposal would make all

individuals buy coverage. But that timetable may be unrealistic: The Administration is far short of the required 218 votes.

To pick up centrist votes, Clinton will have to moderate his plan. The more generous benefits laddled into the plan by Hillary Rodham Clinton will be jettisoned. And the burden on employers will have to be softened.

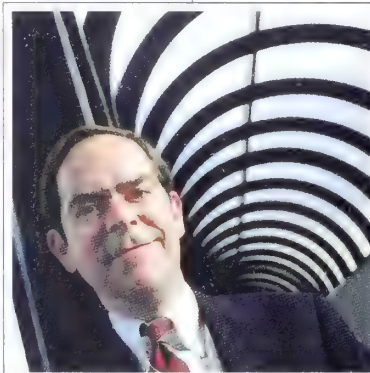
GOP leaders are also angling for the bloc of votes now favoring the Cooper-Grandy approach. Republicans are looking for ways to narrow the gap between the bipartisan bill and Chafee's do-it-yourself plan. GOP leaders and moderate Democrats are circling "like dogs in the park," says the insurance lobbyist. They have to work together, he says, "but they don't have much experience at it."

KEY CHOICES. These Republicans think opposition to reform, the stance of such party luminaries as Richard Cheney, is a political loser. So House Minority Whip Newt Gingrich (Ga.) and other GOP leaders hope to assemble the kind of coalition that won passage of the North American Free Trade Agreement—a core of Democrats and a majority of Republicans. Such an alliance could help Gingrich in a race against Cheney for the 1996 GOP Presidential nomination.

Whether Gingrich can pull this off depends on whether Cooper and Grandy lean toward the GOP or Clinton. Their choice may determine whether the health battle will resemble the partisan slugfest of Clinton's budget or the bipartisan NAFTA fight. As the debate grows, says one co-sponsor, Representative Dave McCurdy (D-Okla.), the Cooper-Grandy forces may "take a suitor on the left or a suitor on the right." But either way, he adds, "Cooper may be the bride."

That means the law that emerges from Congress is likely to bear a strong resemblance to Cooper-Grandy—more activist than GOP plans, but far less radical than Clinton wants.

By Stan Crock and Mike McNamee



COOPER: STAKING OUT THE CENTER

CAPITAL WRAPUP

THE ADMINISTRATION

Energy Secretary Hazel R. O'Leary's aggressive move to open the books on old radiation-experiment scandals has turned a Cabinet back-bencher into a star within the Administration. The Clintonites are pleased that O'Leary's action burnished the Administration's reputation for openness and honesty. And it didn't hurt that her bombshell disclosures—which implicated only long-departed Administrations—came at a time when allegations about Arkansas investments and affairs cast a shadow on Clinton's personal integrity. Although O'Leary's promise to make victims "whole" raised eyebrows in bud-

get-conscious Washington, the fact that many participants in the long-ago experiments are now dead should limit the government's exposure.

TRADE

Watch for "BEMS" to become Washington's hot new acronym. Commerce Under Secretary Jeffrey E. Garten is refocusing U.S. export-promotion efforts to help small- and mid-size companies crack "big emerging markets" around the world. The key targets for greater export financing include China, India, Indonesia, Poland, South Africa, Argentina, and Brazil, among others. Garten is now meeting with executives to sell his idea.

THE ECONOMY

The Administration is coming around to the notion that more robust economic growth doesn't necessarily mean higher inflation. In September, the Administration predicted that the consumer price index would rise 3.3% over the next four quarters. But the forecast that will accompany the fiscal 1995 budget next month will lower the expected increase to 3%. And officials say that a continuing slide in oil prices should allow them to take the inflation forecast down another notch. Meanwhile, Clintonites are sticking with the September forecast that real gross domestic product will rise 3%.



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GO EAST, YOUNG MAN —AND BUY STOCKS

Foreigners are cashing in on hefty gains in the former East bloc

Novice investor Lukasz Zuk has accomplished what millions of stock market junkies dream of but seldom achieve. A former math teacher, Zuk, 37, put \$10,000 into stocks a year ago. Today, his nest egg is worth \$150,000. How did he do it? By investing in the world's fastest-growing bourse—Warsaw. Says Zuk: "Poland is the Hong Kong of Eastern Europe."

In 1993, Warsaw's 22-share stock market index (table) rose nearly 800%—in dollars—outdistancing such highfliers as Brazil, Thailand, and Turkey. But Warsaw is hardly the only Eastern European bourse to come alive. Budapest's jumped 24% last year, and shares on the Prague exchange have rocketed an average 138% since August, when the market set prices for 980 new issues.

TIGER TIME? Amid such hefty gains, foreign investors are beginning to flock eastward to place their bets on what many hope is another Pacific miracle in the making. "This is clearly an opportunity to catch what the East Asian Tigers used to be," says Reiner M. Griltsch, a principal at Gulfstream Global Investors Ltd., a money manager based in Dallas. Indeed, Eastern Europe's equity boom is the latest sign that capital markets in the Czech Republic, Hungary, and Poland are reaching critical mass. And that's having an impact on the entire region's economies.

With the fledgling capital markets pumping a thin but vital stream of crowns, forints, and zlotys into new businesses unable to obtain credit from debt-burdened banks, a virtuous circle is starting to form. As shares

in the new businesses rise along with their profits, money is flowing from investors into the economy, accelerating privatization and prompting even more investment.

This circle is expanding at a staggering rate—so staggering, in fact, that some wonder whether a classic speculative bubble is now forming. And despite the clamor for equities, accurate corporate information is still hard to obtain, back-office backlogs remain a headache, and many issues are illiquid, making it hard to accumulate or sell blocks of stock.

Yet such drawbacks have hardly dampened Eastern Europeans' ardor. Through massive privatization, for exam-

ple, half the Czech Republic's citizens have become shareholders. Indeed, the creation of such a broad stockholder base is spurring the rapid adoption of everything from venture capital to mutual funds. And along with the new instruments, a generation of savvy young financial experts is springing up. Take György Jaksity, 27. When he was a graduate student in 1991, he helped launch the Budapest stock market. In November, he founded ConCorde Securities Ltd. with two associates under 30. So far, they have managed seven equity offerings. "There's a lot of action," says Jaksity, who hopes to earn \$100,000 in 1994, 50 times the average annual Hungarian income.

More than privatization fever is feeding the equity action, however. Eastern Europe's low wages and highly skilled work force have galvanized a huge manufacturing exodus from Western Europe. And that's getting economies back into gear after three years of contraction. Poland's gross domestic product surged 5% in 1993, and it is likely to expand at a Tiger-like 4% to 7% annually for the next five years. "These aren't emerging markets," says Jan Vanous, the president of Washington consultant PlanEcon.



**"LOTS OF ACTION":
BUDAPEST TRADER
JAKSITY, 27, IS
HOPING TO EARN
\$100,000 IN 1994**

EASTERN EUROPE'S BOOMING BOURSES

1993 percent change
in dollars

FE index

WARSAW

791%

30

Despite a fast-growing economy, experts are looking for a 10%-to-15% pullback after 1993's big runup. But upcoming issues from banks and conglomerates still should offer value.

PRAGUE

96%*

17

Low inflation, strong growth, trade surplus, and cheap stocks are attracting foreigners. Some 700 companies will go public this year via a second wave of privatization.

BUDAPEST

24%

16

A new privatization program will draw small investors to stocks, but the market is still vulnerable to worries about deficits and inflation.

*Average of top 20 companies since market opened in June

DATA COURTESY OF PLANECON

inc. "They are reemerging markets." The improved economic climate is helping privatization programs gather steam. On the streets of Prague, Czechs line up and stamp their feet to keep warm while waiting to sign up for coupon books that will give them a piece of the action in the second wave of a \$5 billion voucher program privatizing 700 companies. With shares given away in the first round now worth 15 to 35 times the \$35-a-head registration fee, the scheme has been a public-relations bonanza for the stock market.

That's why many investment advisers expect Prague to be the region's hottest market in 1994. Price-earnings ratios of better-quality companies still are as low as 6 in the Czech Republic, a far cry from Poland, where the average p-e has shot from 2 to 30 in only 18 months. In fact, the high-flying Polish exchange is likely to suffer a setback of as much as 15% this year, analysts say. But fund managers are still keen on new issues. They especially like banks, glassmakers, and food-processing and retail companies. Some 150 outfits could go public in 1994 on a new over-the-counter market.

MUTUAL ADVANTAGE. Compared with Warsaw's \$100 million-a-day volume, Budapest's \$500,000 daily tally is a mere trickle. For now, the hottest market is in compensation bonds, which were given to individuals as restitution for property seized during the past 40 years. Up to 10 million of these bonds trade on the exchange and over the counter every week.

Amid all the clamor for Eastern European equities, foreign money managers are starting to queue up, both to buy stocks and get in on the burgeoning mutual-fund business. For example, Creditanstalt-Bankverein, a big Vienna bank, now runs a \$120 million mutual fund in Prague. But that's dwarfed by the Pioneer First Polish Trust, a \$400 million American-style open-end mutual fund run by Boston's Pioneer Group Inc. Since it made its debut last July, the trust has attracted 150,000 local investors, who anted up an average of \$2,500 apiece to get on board. Encouraged by its success, Pioneer has gotten two of its U.S.-based mutual funds into Polish stocks and is now raising money in the U.S. and Europe for a \$75 million Polish venture-capital fund.

Whether Eastern Europe's economies will really become like Asia's Tigers is still an open question. But on the region's bourses, the resemblance is clear. In the little more than four years since the Berlin Wall crumbled, the region is well into its capitalist revolution.

By Gail E. Schares in Prague, with William Glasgall in New York

EUROPE

GRABBING THE CONTROLS IN MID-TAILSPIN

Two new chiefs at IBM and Digital in Europe have their work cut out



DEC'S DAMIANI: "WE HAVE TO PUT MEAT ON THE BONE FAST"

They didn't call Vincenzo Damiani "The Bulldozer" around IBM Europe for nothing. Even before the marketing chief was publicly named on Jan. 5 to head European operations at rival Digital Equipment Corp., Damiani was ramming a turnaround plan through its ailing \$7 billion unit. Over Christmas, his villa near Milan became a remote command center as Digital executives jetted in from Geneva headquarters to hammer out a 10-point agenda for reviving sales and cutting costs. By the time Digital's 30,000 European workers heard of Damiani's appointment, new managers had already been given detailed assignments and deadlines. "We have to put meat on the bone fast," Damiani says.

He has reason to be impatient, as does his new IBM counterpart, Hans-Olaf Henkel, who also takes over with the new year. The actions of both executives are critical to pulling the two computer giants out of their disastrous tailspins. Europe is the biggest market for both IBM and Digital, accounting, respectively, for 40% and 50% of total sales—and until 1992, a far larger chunk of profits. Then, the triple whammy of shifting technologies, recession, and the rising dollar put an end to the computer makers' glory days with stinging losses. For 1993, Digital Europe barely broke even in its year ending last July 3, and IBM Europe will report an-

other bruising annual net loss in late January.

Time is running short to restore their European fortunes. As the Continent's economies bottom out, market growth could pick up later this year for the first time since 1991. If Henkel and Damiani can't light a fire under sales and exploit the recovery, they could lose to such nimbler rivals as Hewlett-Packard Co. and Sun Microsystems Inc. After years of deep job cuts and rock-bottom morale, "we can't save our way into the future," says Henkel,

the former chief of IBM Germany. "We now have to focus on growth (page 82)."

CRUMBLING ALLIANCES. His problems are strikingly similar to Damiani's: Sales and prices of core IBM mainframes and Digital VAX minicomputers are crumbling faster than healthy growth in areas such as personal computers can offset. As both companies switch over to new low-price microprocessor technologies, they must also find more efficient ways to market them. Yet both have become embroiled in the troubles of other European computer makers: IBM sank \$100 million into France's Groupe Bull, and Digital plowed some \$288 million into Italy's Olivetti. So far, the payoff from these alliances appears remote.

For Damiani, 53, an avuncular Italian who lost out to Henkel for IBM Europe's top job, the move to Digital could be a jump from the frying pan into the fire. His 30 years as an IBM marketing troubleshooter will be put to the test as he tries to reverse years of neglect at

Digital. In France, for example, fewer than 10% of employees are in sales—less than a third of the market average. And sales per European employee are 40% under the \$500,000 industry benchmark. Fixing DEC Europe's "horrible marketing management" and boosting its stagnant 6% market share will be Damiani's job No. 1, says Digital Vice-President Ed-



IBM EUROPE'S HENKEL: "WE HAVE TO FOCUS ON GROWTH"

ward E. Lucente, another recent IBM defector who helped recruit Damiani.

A major plank in his plan is a renewed push to sell to small and medium-size businesses, which are growing at triple the rate of Digital's traditional big clients. The Maynard (Mass.)-based company made an ill-timed stab at that sector when it bought computer units with sales of \$1.3 billion from Germany's Mannesmann and Dutch giant Philips Electronics in 1991, just as recession sent many of their 6,000 clients into the bank. To rekindle the effort, Damiani plans to deploy new marketing teams

in each country and recruit key software houses and resellers specializing in small business. "We can assure growth if we build the right web of partners," he says.

NICHE WORK. Despite similar designs at IBM, Henkel will remain preoccupied with costs. High severance expenses have kept IBM Europe from hacking payroll as fast as in the U.S., despite a 29% decline, to 77,000 employees, since 1990. Now, Henkel plans to accelerate the cuts by an additional 10,000 jobs over two years. Analysts expect him to follow a pattern similar to his bold style

in Germany, where he made a dramatic break from collective bargaining with powerful unions in 1992.

His big test, however, will be to reverse three years of sliding sales. Fresh attacks on niches such as management consulting services and telemarketing sales to homes and small businesses will be crucial to overcome continued main-frame price cuts of up to 60% over the next two years. If Henkel and Damiani can work some magic, Europe's two biggest computer makers will make a cutthroat market even nastier in 1994.

By Jonathan B. Levine in Paris

INA

ALL THE TEA IN CHINA MIGHT NOT PUT OUT THIS FIRE

Can Beijing curb inflation without tinkering with economic reforms?

It's soon to be Year of the Dog on the Chinese calendar, but it's already looking like the Year of Inflation. In recent weeks, jewelry counters at Beijing's Friendship Store have reported record sales as customers hedge against inflation by investing in gold. In Shanghai, consumers have flocked to stores to buy big-ticket items, such as air conditioners and VCRs, before their prices go up. Says Zhao Meilun, a college teacher in Shanghai: "People are panicking."

Now, as technocrats move ahead to the next stage of reform, they are adding to China's inflationary jitters. Inflation already jumps 20% annually in urban areas, but that hasn't stopped China's economic architects from a 50% currency devaluation and steep new business taxes that will only add to price pressures. Sticker prices are rising on everything from staple foodstuffs to imported televisions. That poses problems for the government, which must find a way to keep a lid on social unrest while pushing through some of the most ambitious changes since Deng Xiaoping's reforms began in the late 1970s.

One of the most far-reaching moves is reform of China's tangled, two-tier currency system. On Jan. 1, the government combined the currency used for foreign exchange with the domestic cur-

rency and let the exchange rate float. That was welcomed by foreign investors, who say it will simplify doing deals in China. Some analysts expect the unified currency to dip from the current 8.7 to the dollar to as high as 10. That should drive up the price of foreign goods, from appliances to raw materials.

The new tax laws are also adding to

inflationary pressures. The plan that went into effect on Jan. 1 levies a 33% tax on all enterprises. It also calls for a value-added tax of 17% and a luxury tax on certain consumer goods. The tax on cigarettes will go as high as 45%, cosmetics 30%, and liquor 25%, says Ivan Chan, manager of the tax department at Ernst & Young in Hong Kong.

To avoid social unrest, Beijing author-

ities moved swiftly last month to reimpose temporary price controls on 27 food items after prices for grain, cooking oil, pork, and eggs surged 30% to 40% in a week. Taking no chances, the government has deployed extra police forces in areas of Beijing with large numbers of migrant workers.

"UNCHARTED WATERS." Government officials desperately want to cool inflation but haven't managed to do it. They say the government can limit economic growth to 10% in 1994, after two years of sizzling 13% growth. But the Chinese have made such pledges in the past—to no avail. A credit squeeze begun by Vice-Premier Zhu Rongji last July was short-lived: Strident complaints from state enterprises hooked on bank credit derailed it a few months later. Holding the growth rate to 10% or less is a tall order, says Li Yining, an economics professor at Beijing University and a member of the Standing Committee of the National People's Congress. "You can't stop the momentum," he says. "A lot of projects are already in the works, and if you kill them, then the sacrifice will be even higher." Li's prediction: 12% growth.

In the long term, China's leaders believe that overhauling the banking system, simplifying the currency, and revamping the tax structure will help control the runaway economy. But for now, the reforms are adding to the unease among ordinary Chinese. "When you implement reforms, you are in uncharted waters," says a foreign banker in Beijing. "They have to be careful." That's good advice as China enters another dangerous year.

By Joyce Barnathan, with Michael Weiss, in Beijing and Dave Lindorff in Hong Kong



PRICES FOR COOKING OIL AND OTHER FOOD ITEMS HAVE SOARED

inflationary pressures. The plan that went into effect on Jan. 1 levies a 33% tax on all enterprises. It also calls for a value-added tax of 17% and a luxury tax on certain consumer goods. The tax on cigarettes will go as high as 45%, cosmetics 30%, and liquor 25%, says Ivan Chan, manager of the tax department at Ernst & Young in Hong Kong.

To avoid social unrest, Beijing author-

THE GUNS OF NAFTA: FROM MEXICO'S WRETCHED, A BLOODY DISSENT

The bloody uprising in Mexico's southern state of Chiapas came as a huge shock to both the Mexican government and foreign investors in the country. But in hindsight, such an explosion was almost inevitable. The rapid changes ripping through Mexico's economy are jeopardizing the livelihoods of many Mexicans. The Chiapas rebels, descendants of the country's Mayan peoples, were motivated in part by fear that imports of U.S. corn and other market pressures would wipe out their primitive agricultural economy. "The free-trade agreement is a death certificate for the Indian peoples of Mexico," said Commander Marcos, leader of the group that took over four towns on New Year's Eve, just as the North American Free Trade Agreement was taking effect.

The crisis in Chiapas presents President Carlos Salinas de Gortari and his close associates in the ruling Institutional Revolutionary Party (PRI) with an unexpected challenge just eight months before presidential elections. Salinas has scored real achievements on such macro issues as reducing inflation, selling off inefficient state-owned companies, and attracting foreign investment. He has won his cherished NAFTA agreement, claiming it would generate jobs and wealth that eventually would trickle down to the country's needy. But he has failed to alleviate the appalling poverty of the huge urban shantytowns or the even more desperate circumstances that prevail in rural areas such as Chiapas. "Chiapas exposes the frailties of the Salinas model of modernization," says political scientist Denise Dresser of Mexico's Autonomous Technological University. "Many people fear that NAFTA will institutionalize a two-tiered society."

SCRAMBLING. The embarrassed Salinas and the PRI candidate he picked for the Aug. 21 election, Luis Donaldo Colosio, are now scrambling to show that they care about the poor and that their programs do benefit the majority of Mexicans. Salinas has sent new Social Development Secretary Carlos Rojas to Chiapas to draw up plans for new spending there.

While Colosio remains the odds-on favorite, the Chiapas rebellion could give a boost to the campaign of leftist opposition candidate Cuauhtémoc Cárdenas, who has correctly pointed out that the gap between rich and poor has grown under Salinas. According to U.N. figures, Mexico has the most skewed income distribution of any major Latin American country except Brazil.

The PRI may well feel heat from hard-pressed groups during the campaign. Already, farmers with past-due loans have marched on Mexico City to protest rural problems, and laid-off

workers from Pemex, the national oil monopoly, have camped out for months in front of the national palace to protest the dismissal of nearly half the work force. "Many regions of the country are frustrated with the lack of real political reform, and we're going to see a series of local and regional blow-ups," says Jonathan A. Fox, a rural Mexico specialist at the Massachusetts Institute of Technology.

DARK SIDE. There is also a possibility that the troubles in Mexico, a nation promoted as a regional success story, could tarnish other Latin American free-market programs. There are already signs of unrest elsewhere. In Argentina, state employees rioted in December to protest joblessness and local government corruption. In Brazil, leftist presidential candidate Luis Inácio "Lula" da Silva, who opposes free-market reforms and privatization, is leading the race for next October's election.

But more specifically, the recent troubles illuminate the

dark side of Salinas' programs for Mexico. Cross-border competition threatens hundreds of thousands of workers in such industries as textiles, banking, and light industry with layoffs. To peasant farmers, who consider themselves lucky if they have an oxen-pulled plow, NAFTA looks like a huge threat. As Mexico phases out crop price supports and reduces tariffs on imported corn and other grains, millions of peasants may be forced off their land or reduced to subsistence farming. Even if outside agitators were involved in the recent



REBELS IN CHIAPAS: TO PEASANT FARMERS, NAFTA IS A HUGE THREAT

troubles, as the government insists, such conditions make places like Chiapas tinderboxes.

Salinas, who cannot run again, figures Colosio has the right sort of credentials to give the PRI a more caring image. The former Social Development Minister has spent the past 18 months handing out money through the government's \$2.4 billion-a-year Solidarity antipoverty program. Solidarity has spent big in Chiapas. But Solidarity has been dogged by charges of political favoritism, and the peasants there are still at the mercy of ruthless big landowners who are often allied with the PRI. "The Mexican revolution never reached Chiapas; big landholders triumphed here," says Margarito Ruiz Hernández, a member of Chiapas' Tojolabal tribe and leader of the Independent Front of Indian Peoples.

Such spokespersons for the poor say that as Mexico modernizes, they want more control over their lives and livelihoods, not just a few roads and rudimentary hospitals. If the PRI doesn't start listening to that message, it could get another harsh surprise at the polls next August.

By Geri Smith in Mexico City

THE HOSPITAL

An inside look at how
one institution is struggling
to remake itself

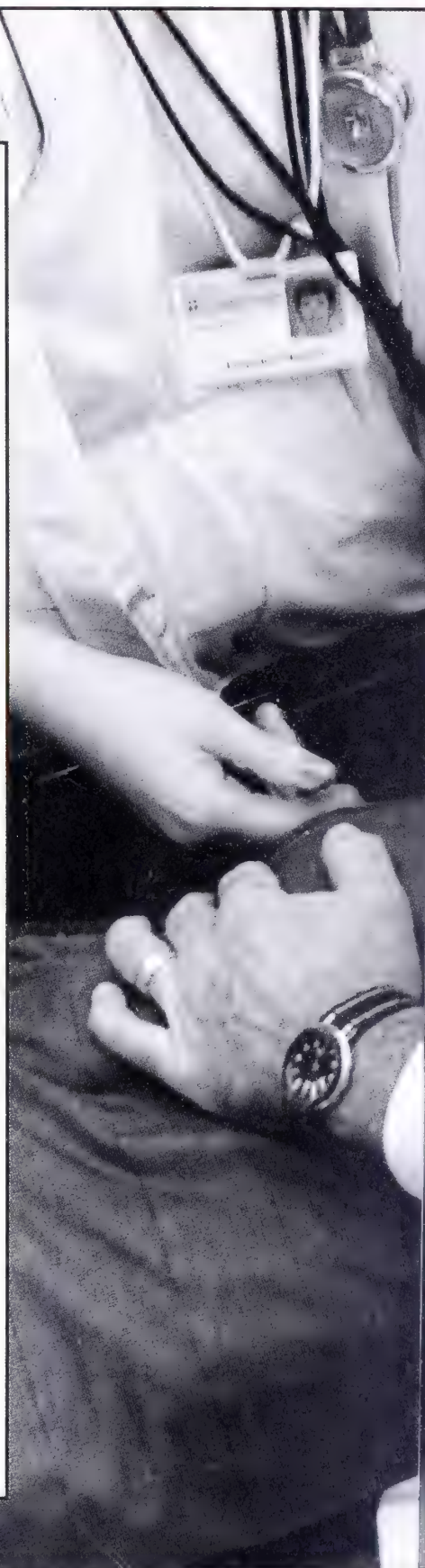
BY KEITH H. HAMMONDS

Here is what Connecticut's Stamford Hospital is up against this morning: A 20-year-old Guatemalan woman lies unconscious in the critical-care ward. Her new daughter, four months premature, is in neonatal. Since she is an illegal immigrant, Medicaid won't pay her bill, mounting at \$2,000 a day. No one will.

In the oncology unit, an old woman with breast cancer grows weaker. "I don't think she's leaving the hospital," says her doctor, who hopes she will refuse the chemotherapy that would painfully prolong her life. There is another pressure, says social services nurse Susan Worland: "The insurance company keeps calling me, saying: 'When can she go home? When can she go home?'"

Downstairs, 20 clerks are working the phones, pressing insurers to pay a day or two sooner. Stamford has one of the best collection records in the state, but an average receivable still runs 65 days. Madeline Hunter and four other workers slog through thousands of pages of patient records, searching for omissions that might trigger costly Medicare audits.

PHOTOGRAPHS BY MARY ELLEN MARK







It is a morning of typically crushing complexity, a true mirror of the health-care industry and the monumental economics it confronts. Making Americans well has been a massive undertaking for most as long as modern hospitals have been around. Now, the people who pay the bills have revolted, completely changing the way medicine is practiced

FALLING PILLAR?
*The hospital as an integral part
of American community life
will probably disappear*

and paid for. With his plan for wholesale reform soon to undergo congressional debate, President Clinton has set the stage for further revolution.

Amid such turmoil, there is an underlying reality: Stamford Hospital is up against itself. Like most of the nation's 5,300 community hospitals—the nonprofit and for-profit institutions that handle



where many die. We fear and avoid them yet welcome the security of their presence. The changes raise unsettling threats to the standard of medicine that we've come to take for granted.

This is the story of a single community hospital and three of its professionals—a surgeon, a nurse, and an administrator. Their jobs and lives at Stamford present a vivid portrait of the challenges that face hospitals everywhere as they struggle to remake themselves.

The problem isn't new. Hospitals have been a growth industry through much of this century, expanding as more Americans received health insurance. Since 1977, though, there have been fewer inpatients, and they've stayed fewer days. As a result, 10% of the nation's community hospitals have closed. Hundreds more have been absorbed by chains (charts).

CRUEL TRAP. Stamford, a 305-bed hospital in a city of 110,000, is addressing the pressures with creative, energetic solutions as it struggles to maintain quality care. It has no choice: Neither public nor private insurers will pay for its services otherwise. Yet Stamford remains, ultimately, what it has always been: a centralized, high-overhead monolith that provides acute inpatient care—and is ill-equipped to deliver the cost savings that payers are demanding.

Community hospitals are caught in a cruel trap. Like hotels, they require a large, specialized staff: At Stamford, the ratio of employees to inpatients runs about five to one. Around the clock, workers must cook meals, wash sheets, fill prescriptions, and run lab tests. Much of that staffing represents fixed expense: It takes as long to process an insurance claim for a two-day stay, for example, as for one of two months. But the revenue attached to that overhead is falling. One Stamford ward has been shut down, and 30% of the remaining beds typically lie empty.

Some of the solutions are straightforward. Hospitals are hurriedly cutting costs, reducing staff, trimming supply bills, and rethinking inefficient processes—the biggest reason why industry profits have actually turned up in the past two years, according to consultant HCIA Inc. Many have diversified, too. Stamford now operates its own nursing home and cancer day-treatment center, and it owns half of an outpatient surgical operation. It has joined a partnership to provide home nursing and is negotiating with Host Marriott Corp. to start a retirement community.

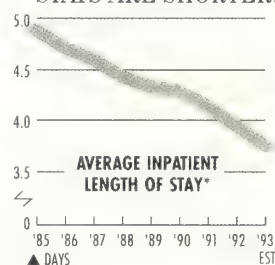
In this way, such hospitals as Stamford are decentralizing, moving away from the traditional model that placed them at the center of U.S. medicine. But progress is slow. "There's a chassis that has been built upon that we're trying to reengineer," says Scott A. Mason of National Health Advisors Ltd., a Vienna (Va.) consultant. "It may be easier to get rid of the chassis."

A few hospitals are doing just that. A new approach known as "patient focus," for example, is behind overhauls at institutions such as Lakeland Regional Medical Center in Lakeland, Fla. There, nurses and other staff, trained to handle several jobs, form teams to care for a few patients apiece. Labs and therapy centers have been split up and relocated on each floor. Computers are in each patient's room so doctors and nurses can order tests and drugs without walking to a central station. Lakeland has spent about \$10 million on the restructuring; it expects savings of \$20 million a year.

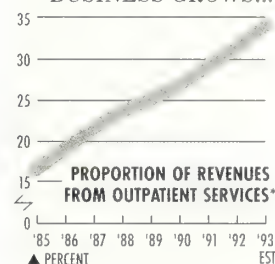
Only a few institutions have made such a leap. For most, there are too many obstacles—history, culture, bureaucracy, money—to allow anything but gradual change. Yet the details of health-care reform are no less pressing: How do you cut costs without jeopardizing patients? At Stamford, Susan Worland, Madeline Hunter, and Bob Blabey show how hospitals are coping today.

Continued on page 54

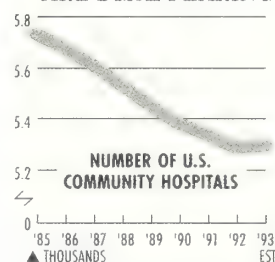
THE NEW REALITY: STAYS ARE SHORTER...



...WHILE OUTPATIENT BUSINESS GROWS...



...SO HOSPITALS ARE DISAPPEARING



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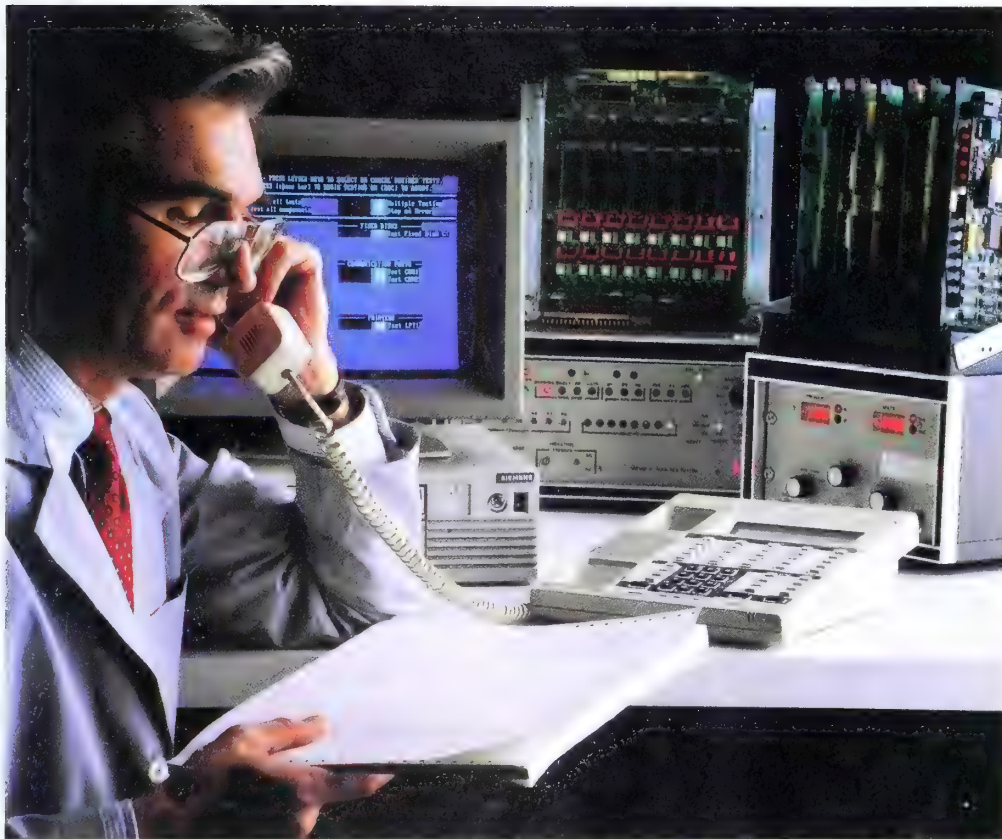
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THE DOCTOR

'Why are you paying me as a physician if I can't make decisions?'

At 10 a.m., Robert G. Blabey Jr. is scrubbing for his second operation of the morning. Blabey is the very stereotype of a surgeon: rugged-looking, stoic, and even-tempered. He is also, in some ways, supremely conservative: He still wears the same white clog shoes in surgery that he did when he was fresh out of medical school 20 years ago.

The shoes are about the only thing that haven't changed in Blabey's professional life. In the economic maelstrom hospitals have been sucked into, it is the doctors who have the most to lose. When insurers restrict reimbursements, physicians are making less money. As managed care spreads, doctors are losing control over their patients. More and more, cost dictates how they practice. Blabey, 52, is a private man: At lunch at the hospital cafeteria, while other doctors complain about insurance hassles, malpractice suits, and uncompensated overtime, he remains largely silent. But he is not as unhappy, and later, he confides that he's considering retiring soon—perhaps to something like volunteer work in Liberia where he spent six months of his residency.

This comes from a respected professional who earns several hundred thousand dollars a year, lives in fashionable New Canaan, Conn., and sent his children to private schools. Stature and money aren't really at issue. Control is. "Why," he asks, "are you paying me as a physician if I can't make decisions?" Insurers are, in fact, taking him out of the picture. Medicare tells him he must prescribe oral painkillers, rather than intramuscular ones, after surgery for pancreatic cancer. A private insurance company won't pay for the extra two days of inpatient care he thinks a weak patient requires. He must write letters and make phone calls to argue his case. Such pressure locks physicians into a false balancing act: The demands to cut costs fight the caution imposed by the threat of malpractice suits. A Connecticut court recently awarded \$2 million

to a woman whose breast cancer was diagnosed six months late. That sort of number reinforces conservatism. Says Blabey: "I may be doing a breast biopsy on one of six patients. Maybe it should be one of seven. I can't be faulted."

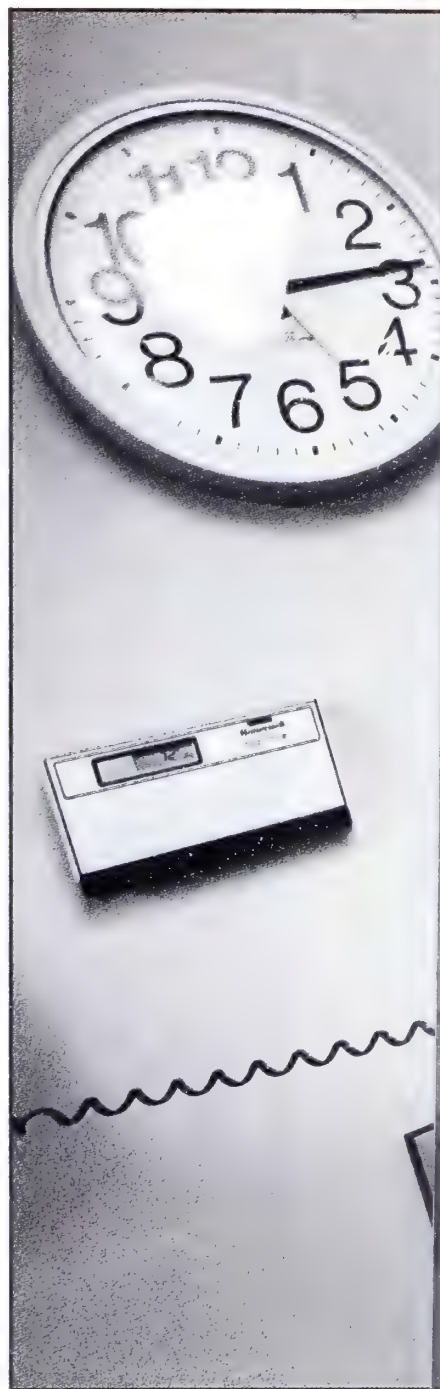
Hospitals and their physicians share a disjointed, symbiotic relationship. Most doctors are not employed by hospitals, but as "medical staff," they historically have had a large say in how the institutions work—what equipment is purchased, what tests are ordered, what surgery is done. And who gets in. Doctors are a hospital's gatekeepers.

In the world of managed care, both doctors and hospitals are making less money. Blabey's procedure this morning is a laparoscopic cholecystectomy, a technological marvel for gall-bladder removal that has been widely practiced for just two years. He inflates the woman's abdomen with carbon dioxide, then inserts a tiny video camera. He cuts three small holes, and through these works a forceps, surgical stapler, and cautery hook. In about an hour, working entirely from television images, Blabey removes an inflamed gall bladder.

CONTROL

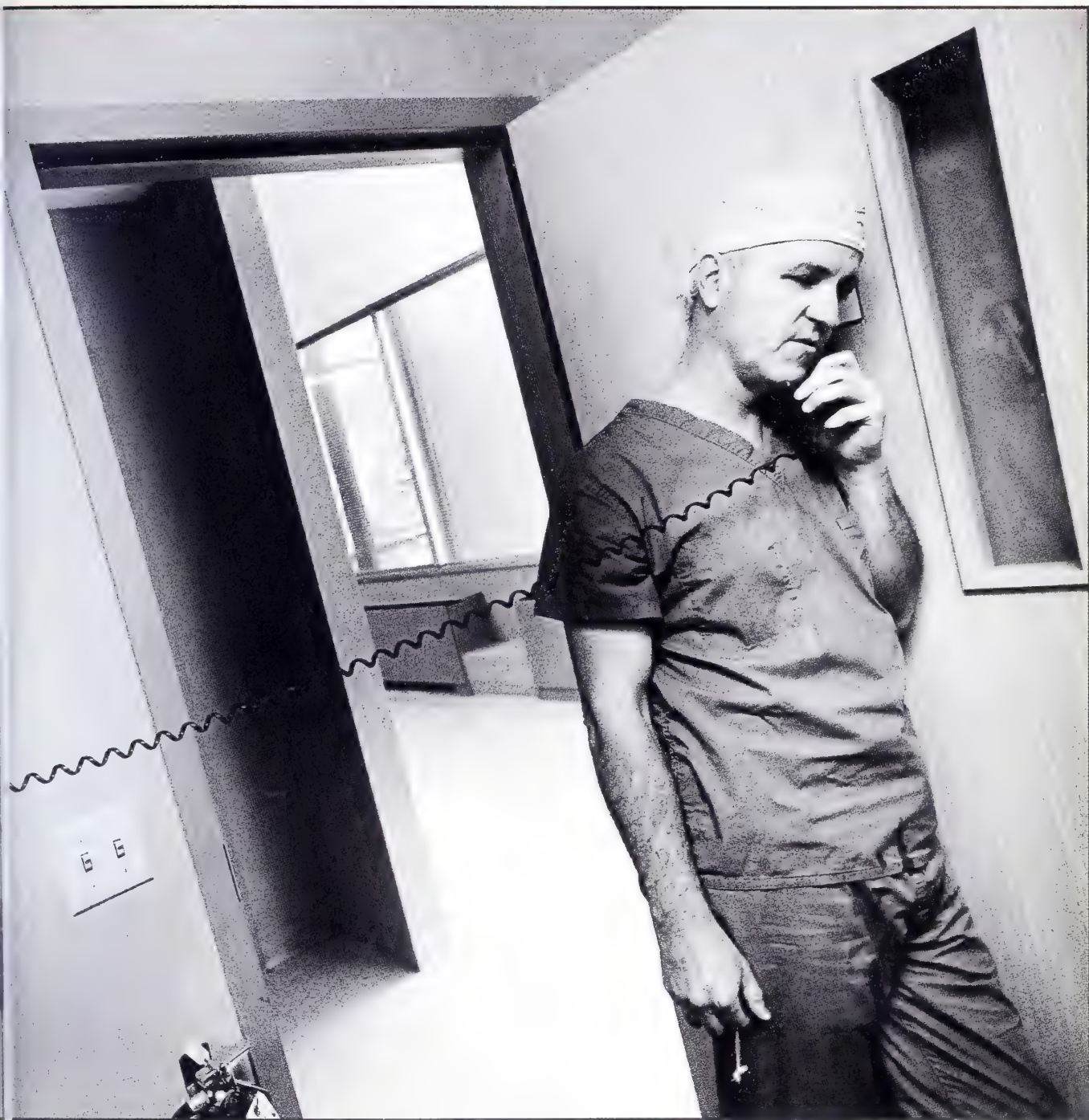
Insurers dictate prescriptions, procedures, and tell Dr. Blabey when to send patients home

People used to spend five days—and sometimes longer—in a hospital bed after gall-bladder surgery. "Lap-choley" patients recuperate for one night. The procedure remains expensive, but the hospital's typical take is only \$8,000; three years ago, it would have been \$12,000. The same has happened with tonsillectomies and cataract removals, and drugs have replaced surgery for ulcer patients. Ten years ago, roughly three-quarters of all surgical procedures at Stamford Hospital required an overnight



hospitalization. Today, that figure is 30%.

Blabey's income has been squeezed too. Medicare will pay him \$670 for the gall-bladder removal; three years ago he got \$1,700. To compensate, he charges non-Medicare patients far more for the same procedure, but they and their insurers don't make up the cuts. Meanwhile, malpractice insurance cost \$58,000 a year. His paperwork, completed by one assistant a decade ago, now requires two part-time workers, as well as the services of a billing agency. H



did 20% more operations in 1993 than the year before—but his income was down 3%.

Blabey could live with that. More upsetting is the threat managed care presents to his ability to practice medicine. He knows "the old system doesn't work" and acknowledges that costs are too high. He concedes there is no hard evidence demonstrating a link between such pressure from insurers and lower-quality medicine. But in his gut, he believes that with his loss of control,

"the quality of care can't be the same."

This is a doctor who, after all, has worked as a sole practitioner for nearly two decades. No partners, no HMOs, no networks. He enjoys the consistent service this arrangement allows him to provide his patients—even though it requires him to work 70 hours a week, including nearly every Saturday and Sunday, leaving little time for family or his beloved fly-fishing.

It is an outmoded existence. Most doctors can't shoulder the growing ad-

ministrative load on their own. Physicians are retiring earlier, frustrated by the bureaucracy and lower reimbursements. They're being replaced by newly minted doctors who expect to work within the managed-care system. The young doctors' pay will be considerably less than that of their immediate predecessors. And their relationships with patients are likely to be far less intimate. They won't work 70 hours a week. And quality of care will hang in the balance.

Continued on page 56



THE NURSE

People are spending eight hours a day getting chemo in a doctor's office, then going home and getting sick'

If this were five years ago, Ann York would be staying in a hospital bed. She arrived in the emergency room with a broken hip, and doctors quickly spotted a growth in her leg: The breast cancer she thought was cured had spread. But in a few days, York will be leaving the hospital. Over the coming weeks, nurses and therapists will come to her house to give her painkiller injections and help with her physical therapy. And she will visit Stamford Hospital daily for radiation treatment. In by 8 a.m., out an hour later.

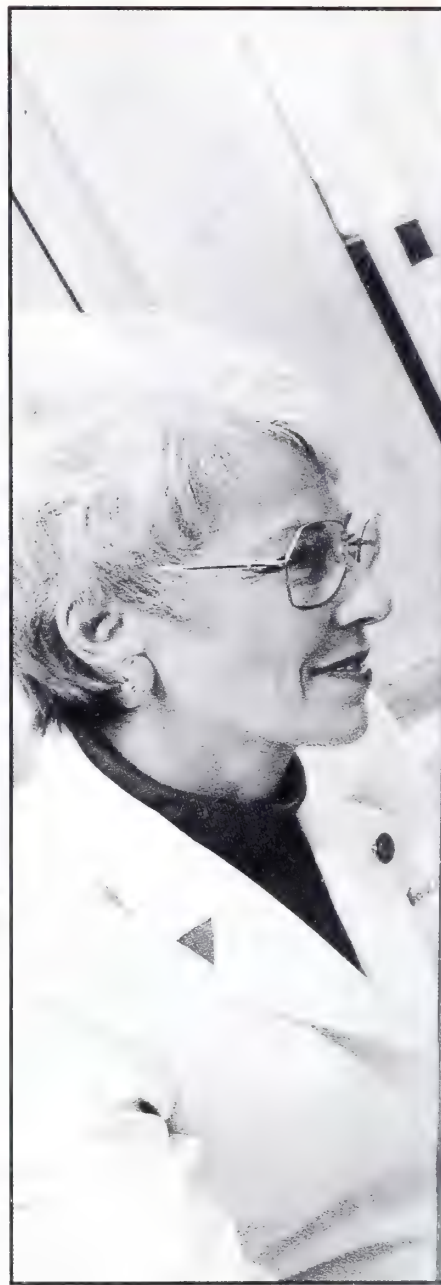
It isn't an arrangement York feels entirely comfortable with. "When I'm really sick, I'd rather be here," she says. Medicare, which pays a big chunk of her bills, doesn't see it that way. Better and easier treatment now makes home treatment of cancer medically viable—

sometimes preferable. And the average cost is \$500 a day less than an inpatient stay.

Sue Worland is the nurse who will, in effect, get York out of Stamford Hospital. It's her job to ensure that patients get the care they need after they leave. That can mean arranging for a nursing home or a visiting therapist; it can mean finding funds to pay for a walker or a commode.

As she moves through the wards, Worland seems more like a mom than anything else. "How are you feeling today?" she asks. "Not so good?" She holds hands a lot or gives a squeeze on her way out of the room. She wants her patients to feel that she's not just another of the 50 to 60 workers they will see in a typical stay.

But she is also tough. "She's the best at playing the game," says one co-work-



er. "The game" means insurers. Worland spends half of her day on the phone, talking fast, negotiating an extra day's inpatient stay or hunting up the money for an extra two hours' worth of home nursing.

Worland works at a critical vortex—the point at which decisions dramatically affect both patients' care and insurers' costs. Her job is emblematic of the pressure hospitals are under to reduce their reliance on costly inpatient treatment. It's a role that has grown ever more intense in the 14 years that she has been at Stamford. Today, the question hangs over every procedure, every day: When does a patient go home? Increases



gly, the answer is: as soon as possible.

Worland is not happy with the trend. Now, people are spending eight hours a day getting chemo in a doctor's office, then going home and getting sick," she says. "It really scares me." Moreover, the short term, much of what she sees fights the economic interests of her employer: The sooner a patient leaves, after all, the more revenue the hospital sends to other care providers. But then, most of the strategic changes that Stamford has made in the past two years have focused on making stays as short as possible to meet the more stringent requirements of insurers.

DIGNITY

*Nurse Worland strives
to keep compassion in the
health-care equation*

Almost all patients are now preregistered by phone. Upon entering the hospital, their records are waiting, and few wait longer than 10 minutes before being directed to the appropriate department. Necessary tests are done on an outpatient basis, three to five days be-

fore admission. No longer do patients enter Stamford the night before surgery. That's \$400 in lost revenue—and \$400 saved by insurers.

Stamford CEO Phillip Cusano's bet is that his hospital will survive by recovering the business in other forms. Hence, the construction in 1988 of a 130-bed nursing home next door, where lower staffing means that per-patient costs run \$200 a day less than the hospital's. Procedures at the day-surgery center cost up to 30% less. Why? Low overhead and limited hours. "At 5 p.m. on Friday," Cusano says, "you can turn off the lights."

Continued on page 60



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THE ADMINISTRATOR

With thousands of procedure, diagnosis, and billing codes revised every year, the burden will only intensify

When critics complain about the health-care industry's massive administrative costs—24.8% of hospital spending, according to one study—they are inevitably talking about Madeline Hunter. As coding supervisor, she wades through perhaps 18 patient records every day, each of them hundreds of pages long.

Hunter, a diminutive, unassuming and mother of six, is a medical detective. She must search through every lab report and compare the results with the doctors' notes. Every procedure must be properly documented and related logically to the diagnosis. The work is essentially duplicative. But if she misses a diagnosis code, Stamford Hospital will lose revenue. If a procedure code slips

through or if a doctor's signature is missing, Medicare or another insurer will likely seek revisions or an audit—both costly tasks.

"You get used to it after a while," says Hunter, who after 36 years at Stamford—nine in this job—is paid \$38,000. To the neophyte, however, the demands on her seem daunting. One record, for a 92-year-old patient whose hip prosthesis was infected, is two inches thick. The hospital charges total \$85,928. Of that, Medicare's scheduled reimbursement, based solely on the original diagnosis, comes to \$3,591. Because of the abnormally long two-month inpatient stay, Medicare tacks on an "outlier" charge of \$12,491. Now comes Madeline Hunter: She discovers an additional di-

agnosis of premature atrial contraction, originally left off the billing summary. That lifts Medicare's contribution to \$24,000.

Hunter and her four clerks don't make many mistakes: Out of more than 700 cases in the past quarter, Medicare amended only eight. But those eight exceptions represent an enormous undertaking for the health-care system. About one-third of Stamford's Medicare cases are audited. For each of those, the patient record must be photocopied and delivered to the auditing agency. Two hospital workers do nothing but gather evidence to refute the audits.

Indeed, payers' attempts to reduce expenses by actively managing care have themselves created a sizable hospital bureaucracy. Two employees at Stamford work full-time to pre-certify patients with insurers—that is, ensure that a medical procedure has been approved before it's done. Doctors and nurses spend hours each week appealing the second-guessing of their work by insur-

PAPERWORK
Two of Hunter's colleagues do nothing but respond to Medicare audits

ers—each of whom maintains different criteria to determine what care is appropriate. To what end? In the short term, "it's unclear whether that has any value," says Gerard F. Anderson, director of the Center for Hospital Finance & Management at Johns Hopkins University. "I can't point to any study that says it has saved any money at all."

Waste is a sensitive issue among hospital administrators. "Are you telling me that out of \$100 million in expenses, 35% is waste?" complains John M. Ahle, Stamford's controller. Wrong, he argues. True, 262 of Stamford's 1,055 full-time employees work in clerical functions. But most unnecessary administration is beyond the hospital's control.

DOUBLE DUTY. Many private insurers, for example, reimburse claims based on a standard form that can be completed and delivered by the hospital's computer network. Perhaps 40%, though, require completion of their own, typically redundant forms. Others demand copies of records or supplemental data on specialized forms.

Stamford is cutting fat. It has identified \$700,000 in nonlabor annual costs that could be eliminated. That includes cutting back to one supplier of surgical gowns, for a saving of \$34,000 annually. Avoiding premixed drugs, which have short shelf lives, will save \$95,000. And the maternity ward has stopped giving new parents free baby blankets at \$10 apiece.

In the universe of a \$900 billion industry, of course, baby blankets are small potatoes. Salaries and benefits are the big tickets—67% of Stamford's total expenses. Unlike many hospitals, Stamford hasn't laid off employees, though raises this year will average just 3%, down from 6% to 8% through much of the 1980s. Stamford has also been slow to explore job-sharing and cross-training that could provide it with more flexibility and, ultimately, lower staffing.

Other hospitals have been far more aggressive. In Northampton, Mass., once-troubled Cooley Dickinson Hospital has swapped nurses and managers for lower-paying support workers, saving about \$4.2 million over four years.

But given the back-office burden imposed on them by insurers, government regulations, and the Medicare-Medicaid payment system, hospitals can cut only so much. Hunter's bookshelf is filled with the arcana of her trade—fat tomes detailing thousands of procedure codes, diagnosis codes, billing codes, and the revisions that arrive every year. Together, they spell job security for her and countless others. "It's complex, but it's going to get more complex," she says. "I'm so busy now, I don't know what they would do without me."

THE NEW REALITY

Alliances, linked information systems, doctor networks that bypass insurers: Everyone is talking to everyone

As the nation lurches into a retooling of its health-care system, the people who work at community hospitals are worried. Bob Blabey and other Stamford Hospital physicians are skeptical of Clinton's plan: They support universal access, but they believe quality of care may decline sharply. Sue Worland worries about that, too, though she says it will happen "over my dead body." Administrators wonder whether the mechanisms created by states to manage the new enterprise will resemble the hulking Medicare bureaucracy more than a streamlined, efficient delivery system.

With or without political reform, hospitals are losing their traditional power to determine how patients will receive care. Instead, as insurers and employers form alliances and capped payment systems force care providers to accept flat annual per-patient fees, hospitals will increasingly find themselves at the bottom of the industry food chain.

But not if they act fast. That's why Stamford, like many institutions, is rushing to find partners. It will soon join a network formed by New York Hospital, a large teaching institution, and it's talking to medical centers in New Haven and Hartford as well as other community hospitals nearby.

The alliances could be the start of a true restructuring. Cusano, who rails against the traditional compartmentalization of medicine, envisions a comprehensive regional "health service resource" in which an acute inpatient-care facility is linked with a variety of alternative health services. It will look a lot like the ru-

ral network created by the Berlin Memorial Hospital in central Wisconsin, which connects women's health clinics in three separate towns with anesthesiology and internal-medicine centers, an extended-care facility, and a nursing home. The elements will be tightly linked, producing a more efficient and consistent level of care. Information systems will be integrated so a patient's record can be transferred easily from a physician's office to a hospital nurse's station to an insurer's claims unit.

Or there may be no insurers at all.

Stamford has formed a network with 244 of its affiliated doctors. It markets the combination to managed-care plans and is approaching large, self-insured employers directly for business. Cusano hopes to see Stamford bypass insurers, negotiating fees directly with employers for the total care of their workers.

Can it happen? Stamford, like community hospitals everywhere, must first overcome its own culture, which is rooted in a century of independence and local preeminence, accustomed to size and growth as the primary measures of accomplishment. It must take on more of the financial risk that is now borne by insurance companies and employers. Physicians such as Blabey will likely have to come to terms with even less control. And patients will have to live with compromises.

Just how many compromises is what troubles Cusano. Will people wait months for elective surgery? Will incentives remain to drive technological advances? Will the best doctors keep practicing if their pay drops? "Will people get the right care?" he worries. "I honestly don't know."

OTHER PRESCRIPTIONS

How community hospitals across the U.S. are changing

MEDINA GENERAL Medina, Ohio

In a \$20 million renovation, Medina cut inpatient capacity to 118 beds from 150 and redesigned the ground floor to speed the flow of day patients, who now account for most of the business.

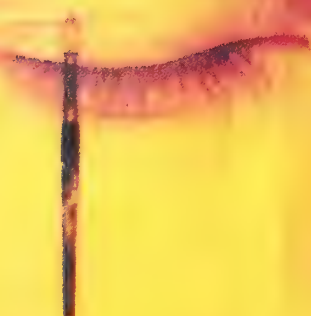
LAKELAND REGIONAL Lakeland, Fla.

With "patient focus" systems, teams of cross-trained staffers provide care to a few patients apiece. Patients used to come into contact with 53 workers during a typical stay; now, they see 13. Lakeland's employment should drop by 15%, part of \$20 million in annual savings.

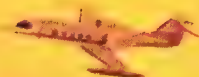
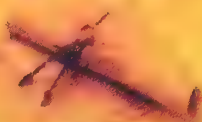
COOLEY DICKINSON Northampton, Mass.

In need of a larger partner, it joined a network formed by Mary Hitchcock Memorial Hospital in Lebanon, N.H. Cooley gets Mary Hitchcock's oncologists; neurosurgeons, and other specialists, as well as the financial backing to issue more bonds.

DATA: HOSPITAL REPORTS, BUSINESS WEEK



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WHEN THE GOING GETS TOUGH, BOEING GETS TOUCHY-FEELY

It adopts teamwork on the shop floor and cooperative decision-making at the top



RAINSTORM BRIGADE: SHRONTZ (CENTER) AND HIS NEW BRASS WANT IDEAS FROM EVERYONE

three operating units: Ronald B. Woodard, 50, head of the commercial plane group; C.G. "Jerry" King, 58, head of the defense and space group; and the executive in charge of Boeing Computer Services, John D. Warner, 53.

DEEP CUTS. Their efforts to transform Boeing's culture come at a critical time. Because of record airline losses, the demand for new planes is dropping (chart, page 67). And Boeing is being forced to slash production while eliminating upwards of 31,000 jobs—a quarter of its work force—by the end of 1994. But even those deep cuts won't do much to salvage Boeing's bottom line. Analyst Howard Rubel of Goldman, Sachs & Co. forecasts that Boeing's net income could drop 33% from 1993's estimated earnings, to \$800 million. Revenues, he reckons, might drop 15%, to around \$21 billion.

More worrisome to Condit and his team is that the falloff represents more than just a cyclical downturn in the airline business.

After losing billions, airlines want planes that cost less and operate more efficiently. Likewise, the Pentagon, which once needed more powerful missiles and stealthier bombers, now wants more affordable weapons.

Only by making planes less expensive and more quickly, Condit believes, can Boeing compete. Already, Boeing has set goals to cut unit costs 25% by 1998 and to speed delivery time for new orders to just 6 months from 12 months today for small planes. To do that, the top executives believe they need ideas from the shop floor and from junior engineers. And only by communicating more openly with employees, they believe, can they raise morale and productivity. "Our choice is: Either we change, or we will not be successful," predicts Condit. "So let's do it."

Changing Boeing's culture is a daunting task. Until the 1950s, its main customer was the Pentagon. Like the mili-

Every Tuesday at 7 a.m., four executives meet in a small boardroom at Boeing Co.'s headquarters in Seattle. They have no agenda, no reports, no overhead projectors. And although Boeing is veering into its worst down cycle in decades, they don't analyze today's crises. Instead, the executives, who form Boeing's next generation of leaders, have a freewheeling discussion of the company's long-term challenges and how to meet them.

The weekly session, over homemade muffins and coffee, is a far cry from the dry business used to be done at the aircraft manufacturer. Meetings were usually stiff and formal. Turf-conscious managers kept to themselves. Sharing was rare: Each division had to invent its own ways of coping with problems.

The meeting is just one example of a sweeping new approach that senior management is trying to instill at Boeing. Convinced that a freer exchange of ideas

as among top executives, midlevel managers, and shop-floor workers can improve morale and efficiency, Boeing is introducing a slew of innovations. Some of the changes seem touchy-feely, such as "cosmic perspective" meetings among top managers at the computer services group. Others are more concrete, such as a team approach to manufacturing that has already produced positive results.

Although CEO Frank Shrontz has been advocating change since becoming chairman in 1988, many of the innovations are being implemented by the muffin meeting's new crop of senior executives, who will lead Boeing into the next century. All fall into the fiftysomething generation. The group is led by Philip M. Condit, 52, president and chief operating officer—and heir apparent to the 62-year-old Shrontz, who will retire at the end of 1996. Rounding out his team are the newly appointed presidents of Boeing's

The Corporation

ary, it was secretive and highly structured. "Boeing has historically been an engineering and technical company without sufficient appreciation for team dynamics," says Gary E. Jusela, an expert on organizational change who meets with Condit regularly to discuss how to inspire people to work together.

The selection of Condit and the new heads of Boeing's operating divisions marks a break with the past. Although all are engineers and Boeing lifers, the group shares a camaraderie and an informal style that's unusual for Boeing. Unlike Shrontz, who is soft-spoken and mild, the four new leaders are talkative and energetic. "We enjoy ribbing each other as well as seriously listening to each other," says King.

Condit, who has made "working together" his mantra, sets the tone. A large, affable man, he drives his Ford Explorer to plants for impromptu visits every week. Likewise, Warner often has potluck lunches with employees. If one sends him a note, he promises a written reply before going to bed that night. King, meanwhile, meets with randomly selected groups from defense and space over donuts and coffee. "I especially encourage constructive criticism," he says.

Woodard, tall and gangly, is most intense about concrete objectives: cutting cycle time, reducing inventory, improving processes. "We are convinced 35% to 40% of everything we do is non-value-added," he says. Partly to demonstrate his point, Woodard has cut the commercial plane group's business plan from a four-inch thick document to 20 pages.

PERFECT FIT. But the changes aren't confined to the executive suite. The team approach has also filtered down to the shop floor. In December, workers at Boeing's factory in Everett, Wash., fitted together the main body, wing, and tail sections of the first 777, due for delivery in 1995. It was the first plane designed and built by Boeing using a team approach, grouping together experts in design, manufacturing, and tooling. Airline customers also sat in on planning sessions. The parts fit to within thousandths of an inch. "It was just like Fisher-Price toys going together on Christmas Eve," said Alan Mulally, general manager of the 777 division.

By contrast, it seemed more like Halloween back in 1988 when Boeing tried to upgrade the 747. Redesigning parts didn't fit well together. Boeing had to throw thousands of workers at the prob-

BOEING OVERHAULS ITS CULTURE...

PROCESS ORIENTATION Boeing is trying to improve efficiency at all levels of its operations

TEAM APPROACH It is grouping experts in design, manufacturing, maintenance, and finance for new-product development

EMPLOYEE EMPOWERMENT Middle-level managers and hourly workers are being encouraged to make decisions instead of waiting for orders from above

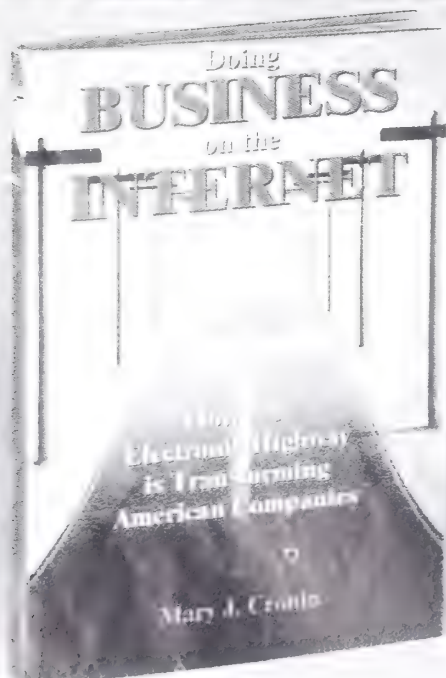
OPEN COMMUNICATION Abandoning its secretive management style, it is sharing information with employees about goals—and layoffs

CUSTOMER SATISFACTION It is trying to respond more quickly to customer requests and is allowing some customers to participate in product design

lems to correct them. Not surprisingly, Boeing has decided to use the teamwork approach on the 737X, a passenger jet scheduled for delivery in 1997. The defense group is using a similar strategy to build the F-22 fighter. The plane is scheduled for delivery to the Air Force in 2000.

Hourly wage earners are also being encouraged to take more initiative. At Boeing's metal-duct factory in Auburn,

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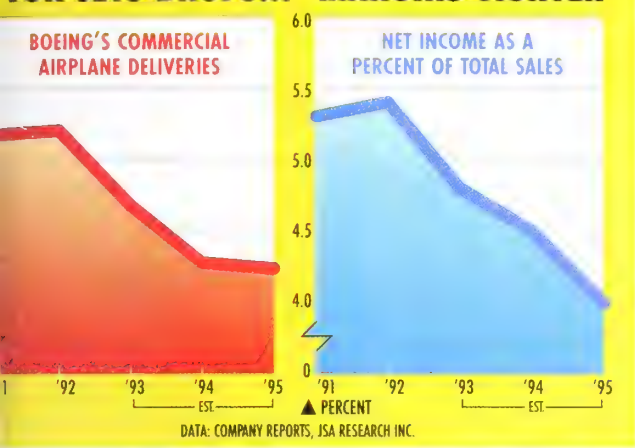
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THE MCGRAW-HILL BOOKSTORE—SERVING TODAY'S PROFESSIONALS

...AS DEMAND FOR JETS DROPS... AND PROFIT MARGINS TIGHTEN



Wash., shop-floor workers last year introduced a Japanese-style "pull" system, taking parts only as fast as they could weld them and not letting inventory pile up. "Our hourly workers know things that managers have only heard whispers of," says Kirk F. Baker, a mechanic who helped devise the changes. So far, they have reduced the average number of days to assemble ducts from 30

days to fewer than 10. While such employee empowerment is still rare, Boeing is taking steps to boost morale battered by the layoffs. Condit recently introduced 360-degree performance reviews in which managers are evaluated by subordinates and peers as well as by supervisors. "Most people can take bad news. The thing that drives them crazy is when nobody will talk to them," says Larry DeBrot, director of support services at the Wichita plant, who first used the reviews two years ago.

"WILLING TO LISTEN." Condit also stresses "pleasing the customer" as a top priority. In the past, Boeing took weeks to respond to requests for customized changes in airplanes. Now, answers come in 72 hours. And Boeing is hoping to do even better. "They've made a real effort to get out and talk to potential

customers about what [the 737X] might be and ought to be," says Robert W. Baker, executive vice-president of operations at American Airlines. "I sense a willingness to listen to the marketplace."

It's still too early to predict whether the cultural changes under way at Boeing will help the aircraft maker thrive in a more austere industry environment. Roughly two-thirds of Boeing's employees work in engineering or office jobs, where productivity gains are harder to measure. What's more, employee morale remains low. Many workers suspect that management wants to improve productivity so it can eliminate even more jobs. "The jury is still out," says one disgruntled employee. "The talk is good. But will they walk the talk?" And some analysts doubt whether Boeing can cut costs as quickly as airlines want. Airlines are demanding hefty price cuts, which could wipe out the bottom-line benefits of cost savings.

Shrontz acknowledges that Boeing has a long way to go. "It's tough. It's uneven," he says. "I don't think we're halfway, but I think we're beyond the 20-yard line." It will be up to Condit and his new team to finish the game.

By Dori Jones Yang in Seattle

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STALKING THE CREDIT-CARD SCAMSTERS

Banks, card issuers, and the law are struggling to keep pace with fast-changing forms of fraud

Dolores Wynn is all too familiar with credit-card fraud. The Chicago grandmother is trying to find off a collection agency dunning her for a four-year-old cash withdrawal—plus interest—that she says she never made. Wynn says she was at home in Chicago March, 1990, when the \$1,200 was taken out of a bank branch in Santa Barbara, Calif. And since she never noticed her Visa card missing, she believes someone managed to get hold of her number and create a counterfeit card. She is currently in a dispute with her bank about who should pick up the tab.

Such problems are becoming painfully common. Credit-card fraud is growing rapidly, harming consumers and often cutting big holes in their credit records. Experts estimate credit-card fraud in the U.S. ran up to \$1 billion in 1993, up from \$864 million in 1992. Increasingly sophisticated scammers are coming up with a bewildering variety of ploys to fool off card holders and card issuers. As soon as Visa, MasterCard, and the issuing banks tackle one type of fraud, the bad guys come up with something new. "It's like a giant balloon," says Joel Lisker, senior vice-president for security and risk management at MasterCard. "You step on it somewhere, and it'll expand somewhere else."

PROVE IT. Some of the worst abuses these days involve counterfeit cards. MasterCard's losses from counterfeiting reached at least \$113 million of its total \$395 million in worldwide fraud losses in 1993. Visa International's counterfeit losses were roughly \$160 million. According to *Credit Card News*, an industry newsletter, U.S. losses from credit-card fraud in 1992 were more than 18% of issuers' profits from merchant fees and fees and interest paid by card holders. Counterfeiting also costs consumers

millions of dollars each year. By law, if the issuer determines a customer has been defrauded, the victim is not liable for losses over \$50. Indeed, issuers in practice often simply eat the \$50. But in many other cases, such as Dolores Wynn's, issuers may refuse to cover the loss on the grounds that there is insufficient proof of fraud. And all consumers must indirectly pay for fraud because the issuers pass along the cost in the form of

Secret Service. But with counterfeiting a growing problem, issuers are now fighting back.

Some of the counterfeiters' schemes are shockingly simple. Last year, the Secret Service broke what became known among law enforcement experts as the Frederick's of Hollywood case. Rasor says counterfeiters were using gambits including bribes of employees at stores and mail-order houses, such as Frederick's of



THE FEDS' FILE OF FAKES: CARDS HAVE SUCH VARIED DESIGNS IT CAN BE HARD TO SPOT COUNTERFEITS

higher interest rates and annual fees.

Some law-enforcement officials are increasingly frustrated by how easy it is for criminals to produce and use counterfeit cards. They believe Visa and MasterCard, along with issuers, merchants, and card processors, have the knowhow to block a lot of the counterfeiting but until recently have resisted investing much in the necessary technology. "When the industry says: 'We're getting killed on credit-card fraud,' we say: 'Fix your system,'" says Robert H. Rasor, special agent in charge of the financial-crimes division of the U.S.

Hollywood Inc., to get card numbers. They then produced fake cards and enlisted accomplices to fly to other regions and get cash advances from banks. Rasor alleges the group managed to steal millions. A Frederick's spokesman says it was not established that company employees were involved. But Frederick's cooperated fully with the investigation.

Other counterfeiters are more sophisticated. For example, they focus mainly on gold cards because of their high credit limits. And they like to target members of some groups with cards through trad-

associations, such as veterans, who tend to pay their bills regularly and have lots of unused charging power. Counterfeiters come up with account numbers and names, often by stealing receipts, and use easily obtainable encoders to make magnetic stripes that include this information. They then affix the stripes to credit-card blanks or to genuine cards they have stolen.

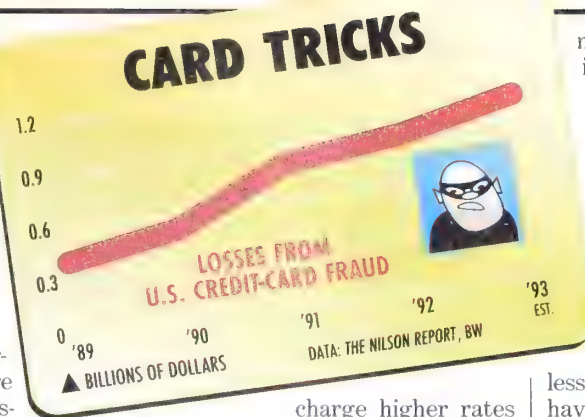
Credit cards have so many different designs, and counterfeit cards are such close replicas of genuine plastic, that it's almost impossible for a store clerk to tell whether a particular card is legitimate. Even the holograms on the front of the cards, introduced in the 1980s to make cards harder to copy, are ineffective. "Counterfeit holograms are coming out of the Orient by the bucketful," according to Donald D. Drummond, executive director of the International Association of Credit Card Investigators.

STOPGAPS. Many rings of counterfeiters have flourished for years by maintaining tight secrecy. For example, groups of West Africans, many from Nigeria, have often been rounded up when they have tried to use counterfeit cards. Frequently, the would-be users tripped up on cultural differences between their countries of origin and the U.S., such as signing papers with just one name, according to Ted Crooks, director of consulting services at San Diego's HNC Inc., a company that produces credit-card fraud-detection devices. But while they have nabbed some low-level members of these rings, the feds have seldom been able to finger leaders. Members typically refuse to help law-enforcement officials.

One thing that has made counterfeiting so devastatingly easy is lackadaisical screening of cards when consumers make purchases. Many sales clerks, for instance, can't compare the data contained in the magnetic stripe on the back of a card (including name, account number, and expiration date) with information embossed on the front. On many counterfeit cards, the data do not match. Some stores have readers that display the magnetic-stripe information, but many do not.

Card issuers have started adding new, hard-to-copy codes to the magnetic stripes on new cards. But often, a merchant's card reader or a card processor's software will fail to read the codes correctly, and the issuer must fall back on verifying name, account number, and the like instead of checking for accurate codes.

More changes are under way. Visa and MasterCard now require issuers to use the new codes. Both card associations are also trying to encourage merchants to update their code scanners so they can read the codes more accurately. They



charge higher rates for old-fashioned processing and shopkeepers could be liable for fraud losses from transactions that occurred in their stores if those transactions involved cards with new codes that were not successfully screened. The new codes are helping. At Visa, which was the first to offer the new markers, counterfeiting losses grew only 15% worldwide in 1993, to roughly \$160 million—a sharp decline from the 70% leap in 1992.

But the new codes do nothing to protect consumers and issuers against skim-

ming, a now rare form of counterfeiting that occurs when someone actually gets hold of a card and copies, or skims off, every bit of information on a magnetic stripe including the new hard-to-copy codes. "We think [the code] is an interim, stand-in measure," says Visa Senior Vice-President Steve Ruwe. "It doesn't deal with skimming."

And even if the card associations and the banks get a handle on counterfeiting, thieves will doubtless find other ways to operate. Issuers have managed to reduce the theft of cards sent to consumers through the mail. But a banker in charge of fraud control for his company predicts thieves will turn their attention to fraudulent card applications. Others, he says, may attempt to steal cards by filing false change-of-address notices on valid accounts and asking for new cards.

With the game between the issuers and the scamsters becoming ever more heated, it's far from clear who holds the best cards.

By Kelley Holland in New York

MARKETS & INVESTMENTS

REAL ROCKET SCIENCE COMES TO HIGH FINANCE

Former Soviet defense brains are now juicing up returns for YES Inc.

For yield-starved investors, the Biblical injunction to beat swords into plowshares has taken on a new meaning—at least for Yield Enhancement Strategists Inc. (YES). This \$300 million money-management operation, based in suburban New York and downtown Jerusalem, provides investors with top-drawer returns engineered by Russian-born ex-military technocrats who are rocket scientists in every sense of the word.

The numbers are impressive: an annual compound return of 9.5% during its 30 months of existence, according to *Managed Account Reports*, an industry newsletter and data base. Also impressive is the roster of employees—among them a dozen Russian-born scientists, mostly at

the Israeli office. In the former Soviet Union, their expertise was not exactly investment-oriented. But "the analysis of missile trajectory curves is very similar to the analysis of yield curves," observes Gary Pickholz.

RAIDS. Pickholz and his wife, Shira, co-founded the firm. Both are old Wall Street hands: Gary was a bond trader at various houses, including Salomon Brothers Inc. and Drexel Burnham Lambert Inc., while Shira was an assistant treasurer at Bankers Trust Co. Another principal in the firm is Robert W. Kasten Jr., a former U.S. senator (R-Wis.), who is marketing the firm to government pension funds.

The Pickholzes hired their first three Soviet-trained scientists at YES's New York office in 1991. "When they started out, they didn't have a clue what a coupon was, let alone yield enhancement," says Gary. But after a six-month training course, which Pickholz describes as similar to the one he went through at Salomon, the Russians are on a par with the top researchers on Wall Street.

The Russians' training and experience in mathematics, physics, and probabil-

"The analysis of missile trajectory curves is very similar to the analysis of yield curves"

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As a result, VF's manufacturing cycle—for Lee, Wrangler, Jantzen, Vanity Fair and five other brands—has gone from the usual 15 days to 5, and they're restocking retailers in 7 days instead of 70. They're also learning what it takes to enter new markets more predictably and successfully, which helps explain their consistent growth.

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analysis back in Russia was at least as sophisticated as can be had in the West. Indeed, their brainpower is so highly coveted that Pickholz wouldn't disclose their full names to BUSINESS WEEK for fear that rivals would snap them up. An article in a trade publication, he complains, resulted in a slew of headhunters descending on the firm—and two of his Russian employees in New York were spirited away. Currently, 12 of the company's 19 employees are Russian. All of them work in the fields of market research and risk analysis and have helped YES to develop risk-averse strategies—"money-market

options either overpriced or underpriced. YES sells overpriced interest-rate options while buying cheap ones. The Russian rocket scientists come up with the complex mathematical formulas that determine which options to buy and which to sell.

YES also bets on changes in interest-rate relationships. One example of the YES strategy was borne out in a sequence of transactions last April. YES worked out a complex deal with Goldman, Sachs & Co., buying and selling custom-designed interest-rate options on European and U.S. interest-rate securities of different maturities. The idea

Dublin, London, and Paris. Shira says it was the high quality of labor available in Israel that tipped the scales. Russian has become somewhat of a lingua franca at the company, as the entire research and analysis departments on both sides of the Atlantic are from the former Soviet Union.

NUCLEAR CONVERSION. The office YES has set up in Jerusalem is located in a downtown building. In the section where the Soviet émigrés work, called the "Russian compound," the atmosphere is like a library—extremely quiet, with occasional bursts of conversation in Russian among the math whizzes, who are usually busy reading books on such topics as fixed-income investment strategies, yield curves, analytics, and quantum theory.

One such expert is Sophia—her last name was not disclosed—a middle-aged former Moscovite. After studying at the prestigious Moscow State University, she worked at the Research Institute for Applied Mathematics. As she explains it, she worked on "aerospace deflection determination"—in other words, she was a rocket scientist. Sophia was recently hired and is going through a training course. She says she has absolutely no knowledge of the stock market, Wall Street, or anything remotely connected to finance.

Another Russian, Mark, studied at the Moscow Steel & Alloy Institute. He worked as a computer engineer at the Sverdlovsk nuclear facility before coming to Israel in July, 1991. Prior to starting at YES, he worked at two leading Is-



PICKHOLZ IN JERUSALEM: SHE WON'T REVEAL EMPLOYEES' NAMES FOR FEAR RIVALS WILL SNAP THEM UP

turns with steroids," Pickholz calls it. YES invests primarily in U.S. and foreign government securities. Such investments usually offer only middling yields. But YES tries to "enhance" its returns by savvy use of futures and options—not for speculative purposes, mind you, but merely to spice up the returns from core securities investments. Much of YES's trading, Shira notes, is designed to identify and exploit the market's mispricing of options.

LINGUA FRANCA. The key word here is volatility. Generally, the greater the volatility in the underlying security, the more costly the option on it. But often, the market misjudges volatility, making

was to wager on the probability of a flattening of the yield curve. The strategy paid off when long rates declined more sharply than short rates.

Such strategies are not available to U.S. retail investors just yet through YES. The firm caters to U.S. institutions and foreign individuals who can fork over \$5 million. But Pickholz expects eventually to launch a U.S. investment vehicle designed for well-heeled individuals.

Success with the Russians in New York was a factor in the company's decision to open up in Jerusalem last year. At the time, YES was looking to start a European office and was considering

Israeli software companies. He explains, halting and heavily accented English mixed with Hebrew, that "fixed-income investment strategy is just a different application of the type of work I was doing in Russia"—developing programs for the nuclear industry. The work at YES, he says, "very interesting."

YES hopes it will be interesting enough to keep them working there—although their talent will no doubt overcome the enforced anonymity. Rock science is, after all, about as big a deal on Wall Street as it used to be in the Soviet Union. And a hell of a lot more lucrative.

By Neal Sandler in Jerusalem

IS THIS A BEAR TRAP?

United Asset Management just might surprise the short-sellers



CEO REAMER: GOING FOR 5% OF A \$7 TRILLION MARKET

Nimble traders who are convinced that the stock market is about to swoon often sell short stock-index futures or buy put options on the stock indexes. Increasingly, however, some bears have used a different tactic: They are shorting not the indexes but a little-known holding company, United Asset Management Corp. The logic is simple: With over \$100 billion in assets under management—mostly stocks—UAM will plunge if the market tanks.

At first blush, that makes sense. A rising stock market last year helped propel UAM's net income up some 26%, and its stock rose 34% to close out the year at 40%. So for sure, UAM will take a hit if the market falls apart—it dropped 40% in the 1987 and 1990 bear markets. But if stocks hold firm or tick up a bit, the shorts may face a rude awakening. So far, the short position in UAM that a little good news on the overall market could send the shorts stampeding to buy shares and push the stock to new highs.

TIME TO BUY. There is more to UAM's success than just a bull market. Norton Reamer, UAM's founder, president, and CEO, says it is designed to grow under all market conditions. "Even if there's a bear market, our revenues should at least be flat," he says.

The reason is that UAM's business strategy is to seek consolidation in the highly fragmented, \$7 trillion investment-management industry. About half

of UAM's growth comes through acquisitions, the rest through market appreciation of the assets it manages. Since the early 1980s, the holding company has acquired an average of four firms a year and now owns 38 money-management boutiques around the country. Reamer says there are hundreds more potential acquisitions. "There's no reason we can't have a 5% share of the [money management] market," says Reamer.

Much of the money managed by UAM affiliates is stable and doesn't depend on the overall market. True, the pension funds and institutions can walk on 30 days' notice. But they have left their money with these units for an average of 14 years. Also, Reamer has been diversifying from U.S. equities, acquiring real estate and global managers as well.

Reamer's modus operandi is simple. He buys firms at about six times pretax earnings in cash and stock, then gives the sellers long-term employment contracts that allow them to share in revenues. That gives the investment managers the chance to cash in the equity they have

built in their businesses without having to give up control. Reamer, as he explains his job, "hangs out" in his holding company office with a spartan staff of 33 and leaves investment and management decisions to each unit. Managers can even set their own pay; indeed, many earn much more than Reamer. In 1992, the president (there is no chairman) took home \$896,000, but he was only the 41st highest-paid employee of UAM.

"REMARKABLE." Those in the investment-management business hold UAM in high regard. Investment banker H. Bruce McEver, president of Berkshire Capital Corp., who has, at times, represented UAM and its acquisitions, calls Reamer's empire "nothing short of remarkable." Since UAM went public in 1986, revenues have grown an average of 27% annually, profits have grown at 30%, and the stock is up 125%. Analyst Steven D. Schwartz of Chicago Corp. thinks UAM's net income will be up 23% in 1994.

Paul McMahon, a mutual-fund manager at Massachusetts Financial Services, likes UAM because it generates a huge cash flow that is available for dividends, stock repurchases, and acquisitions. UAM's net income is only a fraction of aftertax cash flow because UAM rapidly depreciates the value of its major assets—its employment contracts with the unit managers. Based on cash flow, says McMahon, UAM is worth \$53 a share.

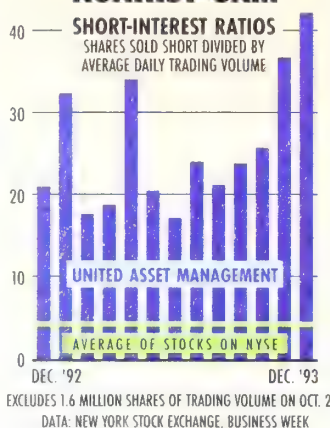
If McMahon is right on underlying value, the stock price could zoom. The reason: the huge short position. As UAM soared last year, the bears kept shorting more shares—about 1.1 million at last count. While that's only about 4% of stock outstanding, the key measure is the short-interest ratio, or shares shorted divided by the average daily trading volume (chart). By that count, UAM looms large with a short-interest ratio of 41.9 in the month ending Dec. 15, nine times the ratio of the average New York Stock Exchange stock. That means if the shorts had to buy back, or "cover,"

the shares they sold, it would take 42 days at current trading volume. Even Walt Disney Co., the stock with the most shares shorted, had a short-interest ratio of 17.3. The upshot: Any good news on UAM could send the stock flying.

If that happens, then once again the old saw will be borne out: When the bears pile on, it's time to be bullish.

By Geoffrey Smith
in Boston

THE SHORTS BET AGAINST UAM



BY GENE G. MARCIAL

SOLETRON: WHY THIS HIGH-TECH SMALL FRY SIZZLES

Money manager Arnold Schmeidler is gung-ho on high-tech stocks, which he says will rocket over the next few years. But rather than go for the leaders, he and several other pros are buying into Big Board-listed—but still unrecognized—Soletron. "It's one of the phenomenal growth stories in the world of technology today," asserts Schmeidler, who believes the stock, trading at 27, is still undervalued. If the company just keeps its current growth pace, the stock will hit 40 in no time, says Schmeidler, president of New York-based money-management firm A. R. Schmeidler.

Soletron's specialty is making those complex printed-circuit boards that form the heart and guts of just about every high-tech device. The company utilizes two types of interconnection technologies for products put out by Apple Computer, IBM, Motorola, Sun Microsystems, and Hewlett-Packard.

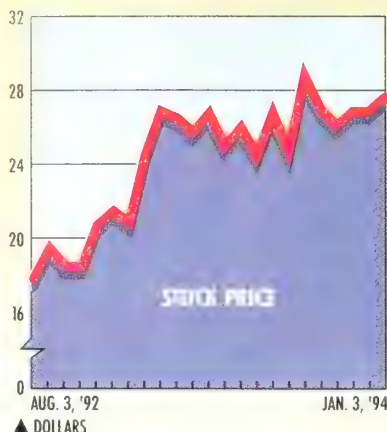
These companies, as well as Conner Peripherals, account for the bulk of Soletron's sales, which jumped an amazing 136%, to \$322 million, in its first quarter of fiscal 1994. In the same period, earnings soared 190%, to a record \$11.9 million, or 28¢ a share from 12¢ a year ago.

"Soletron is benefiting greatly from the growing trend toward outsourcing" as big manufacturers try to cut costs, says Schmeidler. Big Blue and Hewlett-Packard have signed long-term agreements with Soletron because it gives them not only huge operating cost savings but also products that have won Malcolm Baldrige National Quality Awards, says Schmeidler.

HUGE SAVINGS. By outsourcing components, these companies avoid large capital investments, enabling them to focus their resources on developing new technologies. Soletron's cost advantage is huge, notes Schmeidler: The company's total shop costs are \$25 an hour per worker vs. \$50 to \$100 an hour at the big computer makers. Soletron has gone global by putting up facilities in Penang, Malaysia, and in Bordeaux, France. The French plant was purchased from IBM in 1992.

Despite a relatively high price-earn-

CIRCUIT BOARDS HEAT UP SOLETRON



DATA: BRIDGE INFORMATION SYSTEMS INC.

ings multiple, Merrill Lynch analyst Melinda Reach is also bullish on the stock. "Soletron has achieved a premium valuation because of its consistent growth record within an industry that has an open-ended growth opportunity," she says. She expects sales this year to jump to \$1.4 billion from \$836 million in fiscal 1993. And she sees earnings of \$1.13 a share in 1994 vs. 1993's 75¢.

MORE THAN A GUTSY IPO

After the major natural calamities in the past two years, the insurance industry isn't exactly rolling in good fortune. So it probably was not the best time for Penn America Group, a property-and-casualty insurer, to go public. But it courageously did so, at 9 a share on Oct. 28. The stock has dipped to 7½, and that would seem like a stark warning to investors. But not to insurance expert Ray Dirks, who runs a research boutique focusing mainly on insurance stocks.

"Depressed as it is, Penn America is the type of stock that investors ought to pick up in this kind of an up-and-running bull market," says Dirks. The outlook for the company's operating profit margins is "excellent," he adds, despite the gloom in the industry. Dirks notes that Penn America, which fared quite well during the recent national disasters, is expected to report earnings of 66¢ for 1993 on revenues of \$30 million and 81¢ in 1994 on \$37 million. Part of his upbeat appraisal is because of higher premium rates that

Dirks says the industry will see this year.

One big plus is the limited number of general agents through which the company sells its products. The concentration of selling through fewer but productive sales agents, says Dirks, allows management to better monitor their performance in providing top-quality policies in commercial property, multi-peril coverage (of various risks), and physical-injury auto insurance.

Penn America is trading at an attractive price in relation to the company's earnings record and projected results, says Dirks. He sees the stock hitting 18 this year.

SMITHFIELD FOODS: A BIT OVERCOOKED?

Shares of Smithfield Foods, the major regional meat packer and producer of "genuine Smithfield" hams, have been on fire, climbing to 19½ from 15 in early December. What's cooking? Apparently better tidings are afoot, according to a company official, who recently said fiscal third-quarter earnings, ending Jan. 30, 1994, will be better than analysts' estimates. Even so, some money managers aren't buying Smithfield's upbeat story.

Why? At its current price, the stock is trading at a heady price-earnings ratio of 33 based on projected earnings of 58¢ a share in the year ending Apr. 30. However, some bears believe Smithfield at best will earn only 20¢. That means an overly rich p-e of 90.

"An investment in the company's stock at the current time and price holds considerable risk for investors," says a veteran food industry analyst. He notes that the company is overleveraged, with a debt-to-equity ratio of 163. And the stock is selling at more than twice its book value of \$8 a share. Another meat packer, Thorn Apple Valley, has a debt ratio of just 9 and a book value of \$15 a share, with its stock trading at 21. "I would much prefer buying into Thorn than Smithfield given the fundamentals of both companies," says the analyst.

Notes a money manager: "Even if the company earns 35¢ a share in the third quarter, as Smithfield indicates, it wouldn't be much of a blessing" because it earned 66¢ in 1992's third quarter. "Anyway, we don't see any meaningful earnings at Smithfield for some time to come," says this pro, who sees the stock skidding to 10 this year.

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Science & Technology

DISPLAYS



FINE-TUNING: JAPANESE COMPANIES ARE FOCUSING ON HIGH-RESOLUTION COLOR SCREENS

JAPAN'S LIQUID-CRYSTAL GOLD RUSH

It's lapping rivals and investing heavily in active-matrix technology

In Japan, yearend parties are known as *bonenkai*—literally, “forgetting the year that’s past.” Recession-weary electronics managers in Tokyo would like to do just that. So in their *bonenkai* speeches last month, company presidents waxed poetic over their brightest hope for the future: liquid-crystal displays for computers and consumer electronics. NEC Corp. even set up some screens behind the banquet table, and President Tadahiro Sekimoto repeatedly urged guests to “take a nice long look.”

Sekimoto and his colleagues in Japan’s electronics industry have good reason to dote on LCDs: The market is nearly all theirs. To be sure, overseas rivals offer beguiling visions of better technology. But in the U.S. and Europe, where promising ideas are approaching production, no one seems willing to match Japanese investments. And for now, competitors in Korea and Taiwan have barely begun to produce notebook-size screens. As a result, Japanese companies control 95% of the world market for LCDs and are selling the latest generation of dazzling color displays as fast as they can crank them out. “At least for the next few years, they’ll be in firm control,”

predicts Steve Myers, an electronics analyst at Jardine Fleming.

That’s welcome news for the Japanese, who are in the process of elevating LCDs from a niche product to a linchpin in their electronics strategy for the rest of the 1990s. Since their commercialization in the early 1970s, the somewhat fuzzy “passive matrix” LCDs used in calculators and in some small TVs have been a low-profit item at best. Second-generation “active matrix” LCDs, though larger, sharper, and more colorful, have been expensive to make, in part because they were so hard to manufacture that until recently more than half came off the line with defects.

ACTIVE MARKET. With mind-boggling speed, however, the screenmakers are bounding over manufacturing hurdles: raising yields, cutting production costs, and making active-matrix LCDs better—sharper still and faster in handling full-motion video. Thanks in part to such improvements, these advanced LCDs are becoming key components in portable computers, camcorders, handheld organizers, video games, and virtual-reality devices. Such screens are already making good money for industry leaders.

Sharp Corp., and several other players may be in the black soon. So the companies are on an investment spree. Over the next four years, NEC and Sharp plan to pump nearly \$1 billion each into new production lines. Hitachi, Toshiba, and Sanyo will also spend large sums, enticed by projections that the market will quadruple, to at least \$15 billion by the end of the decade (chart).

The active-matrix business is benefiting most at the moment from booming sales of notebook and laptop computers. Personal-computer makers are willing to pay \$1,500 apiece for the screens—double the price of passive-matrix displays—because of their higher performance. In first-generation screens, a picture is created by applying voltages to rows and columns of liquid crystals. In active-matrix LCDs, by contrast, each picture element, or pixel, is switched on and off by its own transistor. In a technique derived from chipmaking, several hundred thousand electronic elements are printed on a sheet of chemically treated glass, producing an electronic mesh, or 'active matrix.' The drawback is that manufacturing complexity increases with size, so that screens larger than 17 inches diagonally are impractical.

PLASMA AND TUBES. U.S. and European contenders have been counting on these weaknesses to be Japan's undoing. Rather than use the same technology, they're exploring other varieties of displays that may be cheaper and easier to make. And the upstarts' creativity is impressive. Texas Instruments Inc. now can pack 442,000 microscopic mirrors onto a micro of silicon that could serve as a projector for high-definition television. Motif Inc., a joint venture of Motorola Inc. and In Focus Systems Inc. in Wilsonville, Ore., has pioneered 'active addressing,' which can give passive-matrix LCDs more control over pixels to achieve nearly active-matrix resolution for a fraction of the cost. It will begin shipping samples soon. Photonics Imaging of Northwood, Ohio, has built a flat-panel display illuminated by gas plasma that measures 30 inches diagonally—far larger than any LCD can achieve. Tektronix Inc. in Beaverton, Ore., is lowering costs by combining aspects of LCDs and plasma displays. France's Pixel International, meanwhile, has developed a six-inch color screen made of thousands of tiny vacuum tubes—each like the cath-

ode ray tube in today's TV screens.

The Pentagon's Advanced Research Projects Agency is aiding the U.S. effort with grants of \$85 million this year. It has committed \$25 million to help OIS Optical Imaging Systems Inc. in Troy, Mich., build a \$100 million LCD plant. Another \$20 million will go to the U.S. Display Consortium, a group of electronics companies that includes American Telephone & Telegraph Co. and Xerox Corp. Rockwell International and Honeywell are helping Kopin Corp. in Taunton, Mass., bring LCD goggles for virtual reality to the consumer market.

U.S. Display Consortium President Peter Mills even argues that U.S. pro-

venture with IBM. And Motif sells its chips for active addressing to a unit of Sanyo Electric Co.

Still, the Japanese have a huge head start. While Pixel and Motif prepare their first screen shipments, Sharp expects \$1.5 billion in LCD revenues in the year ending in March. And for Japan, practice is making perfect. In less than two years, NEC engineers have cut the number of photographic production steps from 12 to 6. On a new line in Kagoshima, they will soon produce four panels instead of two from each sheet of glass. NEC has also raised production yields—the share of good screens in each batch—from 50% two years ago to nearly 80% today, a gain many analysts hadn't expected to see for years. Costs are falling, too, as production and testing gear is standardized. "The LCD industry is at a turning point," says Zenzo Tajima, active-matrix products manager at Hitachi Ltd.

"BLOODBATH." Now, the Japanese are trying to cement their lead with relentless improvement in screens.

Fujitsu Ltd. and Sharp have shown LCD prototypes that can be viewed from a wide angle, like TV screens. Sharp and Casio Computer Co. have begun to replace glass with lighter and more durable plastics. Vertical integration—something U.S. companies lack—adds urgency to their efforts. Toshiba Corp. and NEC use fancy color screens to boost sales of their notebook computers. And Sharp has sold half a million ViewCam video recorders, which have a built-in four-inch LCD screen.

The Japanese could still suffer setbacks if new entrants accelerate the fall in prices, which producers expect to decline gradually to \$1,000 over the next few years. Or

market growth might not meet expectations: "Who will buy all of these expensive screens?" asks David E. Mentley, director of display-industry research at Stanford Resources Inc. in San Jose, Calif. He sees a possible "bloodbath in the next two to three years."

Sharp and the others are betting he's wrong—and that if he isn't, they will have the prowess to survive. As for the challenge from exotic new displays, they plan to make whatever catches on. They already have crossed one chasm of technology, from picture tubes to liquid crystals. After that, what's another leap or two?

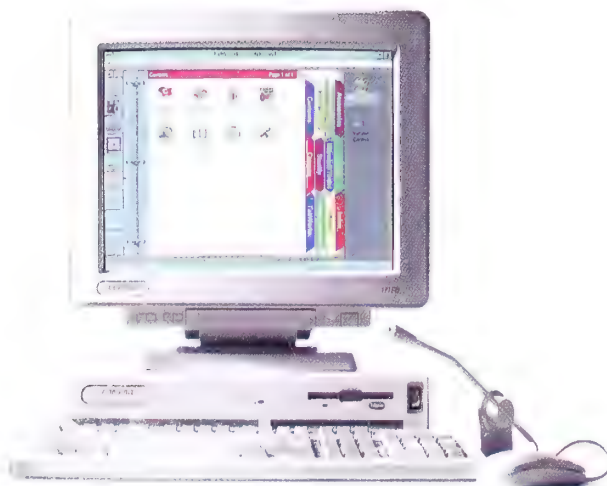
By Neil Gross in Tokyo, with John Carey in Washington



ducers may leapfrog the Japanese. "For the first time in any industry," he says, "Japan has borne the investment burden in the first generation of equipment and materials." Mills argues that other display companies can thus build on what the Japanese have learned—without limiting themselves to active-matrix technology. "We're not burdened by a \$3 billion investment in one technology," he says.

In the meantime, Americans are big suppliers to Japan. Corning Inc. sells 70% of the glass used in active-matrix screens. Applied Materials Inc. builds some of the best equipment to deposit thin-film transistors. Toshiba Corp.'s computer displays are made in a joint

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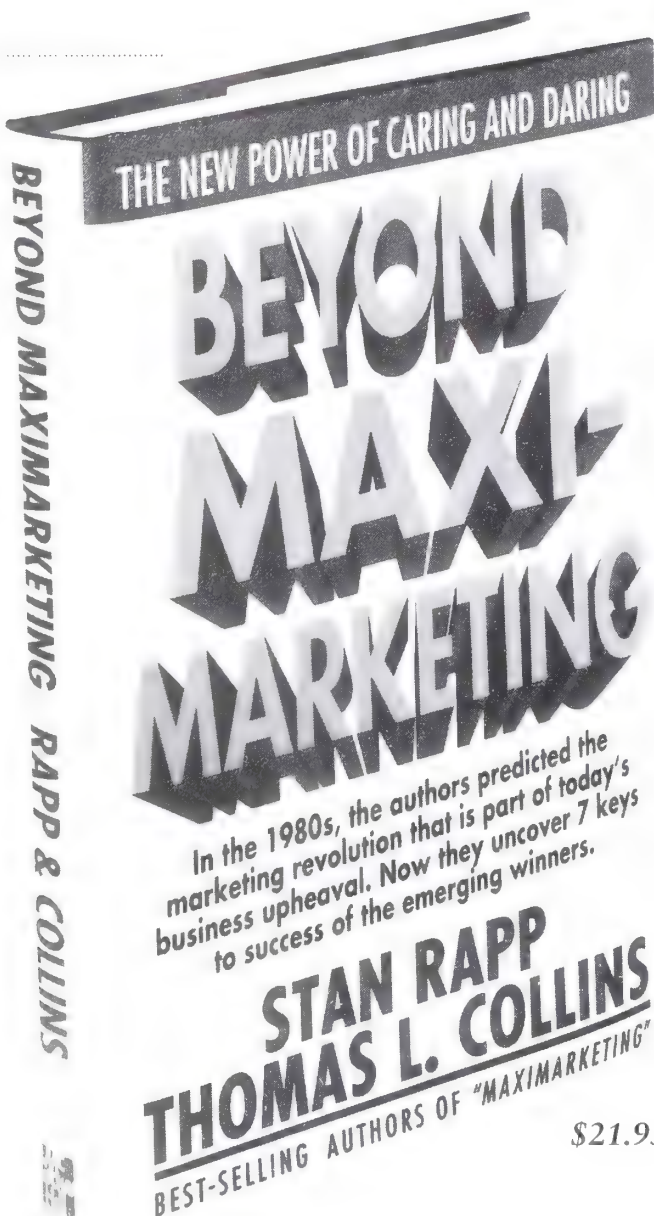
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A STAR WARS LEGACY: HOT PIZZA



Who says pizza is low-tech? A San Diego-based defense contractor that developed a fabric for protecting satellite electronics from laser attack is promoting it as a way to keep pizzas piping hot. This attempt at defense conversion isn't just pie-in-the-sky: Pizza Hut Inc. is testing 2.5-pound squares of the heat-retaining material in

Philadelphia, Chicago, and Los Angeles to insulate pizzas while they're delivered to factories, offices, high school cafeterias, and other destinations.

Claude Hayes of Hayes & Associates developed the substance, Composite Fabric Endothermic Material, for the U.S. Air Force. It was originally made of a mesh of graphite and diamonds. For civilian purposes, Hayes is using a cheaper compound of Kevlar, silica, wax, and various chemicals sandwiched between thin aluminum plates. Someday, Hayes hopes to put the material in the walls of buildings so they will absorb heat during the day and release the heat into the building at night.

A CLEAR-EYED VIEW FROM LIQUID CAMERA LENSES

Lockheed Corp. has invented an inexpensive telephoto lens that uses liquids in place of some glass parts. The liquids, whose ingredients Lockheed won't disclose, help correct the color distortion from light bending through glass. They also fill in imperfections on the surrounding glass surfaces, reducing the need for lens polishing. Lockheed says using the liquid improves contrast and resolution because the adjoining surfaces of the lenses don't need antireflection coatings. [This] can make some really stunning photographs," says Robert Sigler, an engineer with the Optical Design Laboratory of Lockheed Palo Alto Research Laboratories.

The biggest advantage may be reduced cost. Lockheed aims its design can cut the cost of materials for a 300mm telephoto lens by nearly 90%, to \$150, from about \$1,100. Lockheed holds about a dozen patents covering how the liquids are sealed inside the lenses. It's in talks on production deals with lens makers in the U.S., Europe, and Japan.

SOFTWARE THAT TAKES THE DYSLEXIA OUT OF PDAs

Handwriting-recognition software is endlessly entertaining: You scrawl "guava jelly" on the tablet of your personal digital assistant, and it thinks you wrote "Mount Vesuvius." Eric Sven Ristad, an assistant professor of computer science at Princeton University, and Peter Yianilos of NEC Research Institute, hope to change that. They're working on smarter recognition software that won't just dumbly com-

pare a mark on the tablet to a library of marks to find the closest fit. Instead, it will try to figure out a writer's calligraphic style, much as a human does when trying to dope out a scribble. Many influences shape a person's handwriting style, from schooling to personality to arthritis. So, a person who makes L's a certain way will most likely make T's in a consistent way. The software can improve its chances of guessing a letter by getting a fix on a person's tendencies.

To test their theories, Ristad and Yianilos are using a Hewlett-Packard Co. workstation to develop the capability to generate—you might say forge—all possible handwriting styles. The next steps will be to use that accumulated knowledge of styles to try recognizing samples of handwriting—and then boil down the software so it can run on a handheld device.

FASTER DATA TRANSMISSION? PUT IT ON THE PLASTIC

A plastic from the University of Southern California could dramatically speed the conversion of electronic communication signals into light pulses for transmission over optical fibers. It was created by Chengzeng Xu, a fellow at USC's Loker Hydrocarbon Research Institute. He says that it can handle data four times as rapidly as gallium arsenide and loses only one-tenth as much power in converting signals from electricity to light.

Electronic signals excite electrons in Xu's plastic. That in turn modulates the speed of light passing through the plastic, resulting in a light-wave version of the electronic signal. Usually, polymer chains heat up while they work, go out of alignment, and become useless. Xu stabilized the chains by using electricity and heat to link their heads and tails to chains of molecules above and below. The Pentagon has made grants to Adtech Inc. in Dayton, Ohio, to scale up production of the material and Tacan Corp. in Carlsbad, Calif., to test it.

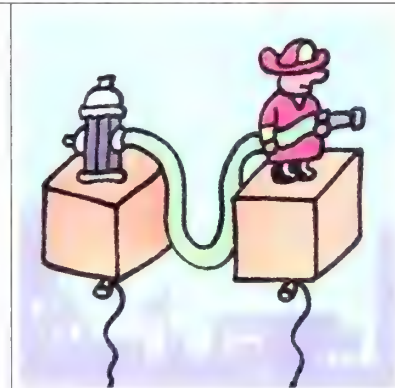
UP, UP, AND AWAY FROM THE TOWERING INFERNO

It's not a comforting thought for people who live or work in tall buildings: In a fire, ladders may not reach you, and a helicopter rescue is possible only if you can make it to the roof of the building.

Since 1980, balloon-maker Sidney Conn has been promoting an alternative: a cube-shaped hot-air balloon that can be raised and lowered

outside a building with the help of guide cables. Stranded occupants would be able to step into a compartment at the bottom of the balloon, while firefighters stand on top of it fighting the blaze.

To rise, the air inside the balloon has to be even hotter than the air around the fire. Finding a balloon that can withstand such heat, as well as abrasion and falling shards of glass, has proved tough. Conn, vice-president of Balloon Works in Statesville, N.C., is working on that challenge with North Carolina State University, Ciba-Geigy, BASF, and Hoechst Celanese, among others.



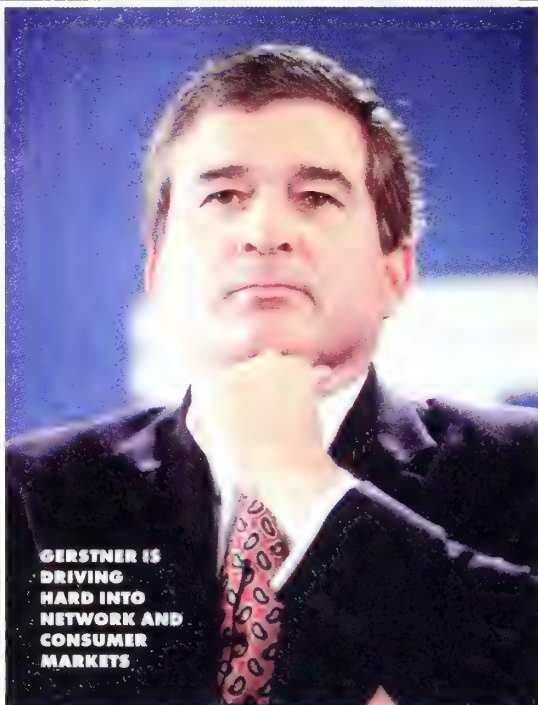
IBM REBOOTS— BIT BY BIT

CEO Gerstner's quiet strategic changes could revive Big Blue

Ever since he took over, the big question about IBM has been: Where is Louis V. Gerstner Jr. going to take the world's largest computer company? What's his vision? Gerstner still hasn't outlined a grand strategic plan. But recently, in a series of quiet moves, he has begun to tip his hand about where he wants to go.

Clearly, Gerstner is bringing Big Blue into the '90s. The most fundamental move is dividing the company's product groups to reflect the market's shift to client/server computing—using powerful "servers" to feed data and programming to desktop "clients" such as personal computers. Now, mainframes, minicomputers, and high-end workstations—as well as related software—fall into a single server group. The IBM Personal Computer Co. handles the clients. That, says IBM chief strategist James A. Cannavino, should help IBM do a better job marketing client/server systems. "I think we're starting to get the structure of what we're doing kind of pinned in our mind." In the past, because different product groups were competing to offer servers, customers were confused. "Gerstner is finally deciding where the pieces fit," says Sam Albert, an independent consultant based in Scarsdale, N.Y.

At the same time, Gerstner is moving IBM further into consumer markets. With the emergence of the so-called Information Superhighway, the biggest growth opportunities will be in equipping consumers with hardware and services for the digital deluge. That's why on Jan. 3 Gerstner brought in longtime colleague G. Richard Thoman to run the IBM PC Co. and oversee Prodigy Services Co.,



LOU'S MOVES

- ▶ Appoints former PC chief, James A. Cannavino senior vice-president for strategy
- ▶ Sells IBM Federal Systems to defense contractor Loral for \$1.6 billion
- ▶ To reflect industry shift to client/server computing, lumps mainframes, minicomputer, and workstation "servers" into a single group
- ▶ Hires former Nabisco marketer G. Richard Thoman to run IBM PC Co. and push further into the consumer market

the on-line service that IBM owns jointly with Sears, Roebuck & Co. Gerstner's mandate for the former RJR Nabisco Inc. marketer: Get IBM to the forefront of emerging consumer markets for multimedia, mobile computers, and on-line services.

The same day that Thoman took over PCs, his predecessor, Cannavino, moved to IBM's Armonk (N.Y.) headquarters as

senior vice-president of strategy. Despite the title, he says he won't be spinning some new technological vision for Gerstner. "Am I the V guy?" jokes Cannavino. As far as Cannavino is concerned, the basic vision is in place, and his job will be carrying out plans in multimedia, network services, and micro-processor technology already embraced by Gerstner. "I'm going to be getting things done," he says. Case in point: The first week in January, Hewlett-Packard Co. announced an investment in Taligent, the IBM and Apple Computer Inc. joint venture to develop a new generation of operating systems. Cannavino, who helped forge the Apple partnership, has been instrumental in keeping Taligent going—despite setbacks in its product-development work.

SWEEPING REVIEW. Now that Gerstner has decided what the basic outline of IBM will be, he has also decided what Big Blue can live without. While he has ruled out the wholesale breakup of the company that seemed a logical step from former Chairman John F. Akers' radical reorganization in 1991, Gerstner has shown that he's prepared to jettison nonstrategic assets. The first to go was the Federal Systems Co. unit based in Bethesda, Md. On Dec. 13, Gerstner announced that military contractor Loral Corp. will pay \$1.6 billion for Federal Systems, which creates complex computing systems for Uncle Sam.

Taken as a whole, Gerstner's moves in the last weeks of 1993 add up to a creeping reorganization. "IBM should not be looked at as a company that's sitting on its thumbs," says Mark Stahlman, a consultant who heads New York-based New Media Associates. "It's in the middle of a strategy review far more sweeping than anything in its history."

The new initiatives, coming on a return to profitability in the third quarter, have made Wall Street bullish. "The past year was clean up and get ready for 1994," says Salomon Brothers Inc. analyst John B. Jones Jr. He expects to join other analysts in raising earnings estimates. As a group, they have upped their estimates for the fourth quarter by some 20¢, to the 70¢-to-80¢ range—compared with a \$9.57-per-share loss last year. As a result, the stock has flirted with \$60.

Part of the optimism stems from Gerstner's decisive moves in the poorly performing mainframe and minicomputer businesses. These lines are now lumped with workstations under Senior Vice-President John M. Thompson, the former head of IBM Canada Ltd. who's known for his sales and marketing experience.

tise. "When [Thompson] was head of IBM Canada, he made his numbers when everybody else was going into the tank," says James Cassell, an analyst with market researcher Gartner Group Inc. Thompson is expected to accelerate the "migration" of these lines to one IBM chip technology. Eventually that should reduce incompatibilities and make mixing and matching IBM products easier for customers.

PC chief Thoman inherits a much healthier business. In 1993, IBM PC Co. was the only truly bright spot for Big Blue. The company now gets new models off the drawing board every 6 months—instead of 12 to 18 months 2 years ago—and has retaken the lead from Apple. IBM hopes to report a 20% jump in sales, to \$12 billion, for the PC unit—and a small profit.

To keep up the momentum, a better showing in the home-computer market is essential.

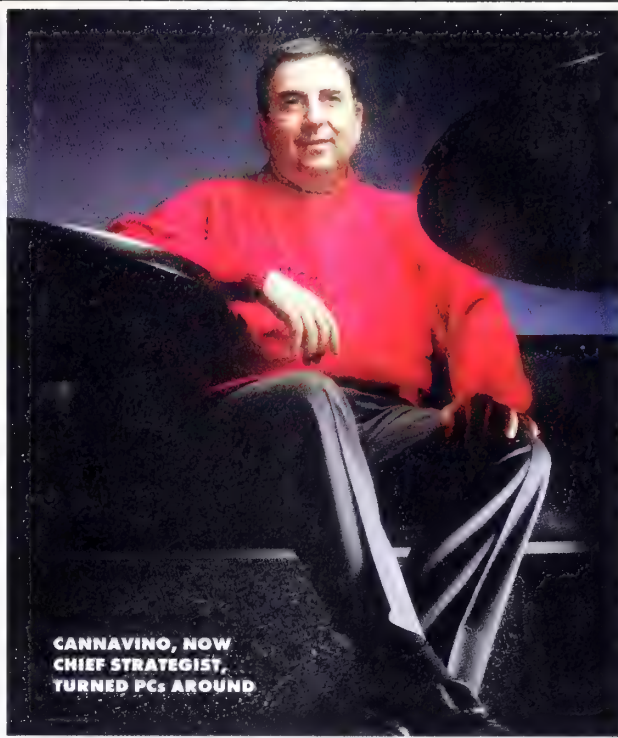
Four out of 10 PCs sold are going into homes, reports market researcher Link Resources Inc. But, despite repeated forays into the home market dating back to the 1983 PCjr, IBM has never scored big with consumers. Today, only 2 out of every 10 IBM PCs are sold to consumers.

HIP GAMBLE. Thoman is expected to change that—and IBM PC Co. in the process. Indeed, hiring Thoman, 49, is Gerstner's boldest effort yet to rattle IBM's entrenched culture and inject some consumer-marketing savvy. "He's lived a life thinking about the consumer," says Cannavino. Thoman is the first executive from outside the industry to run an

IBM product business. Thoman, most recently head of Nabisco International Inc., has been Gerstner's protégé for 20 years, having followed him from McKinsey to American Express to RJR. His consumer-marketing resumé may be just what IBM needs. "I don't think IBM has ever mar-

eted anything successfully to the consumer," says Brown Brothers Harriman & Co. analyst William J. Milton Jr.

If it can't, the market could go to Apple and Compaq Computer Corp. Both companies are focusing intently on the consumer business: On Jan. 5, Apple announced its own Prodigy-like service, World. And Compaq is working closely with Microsoft Corp. to build consumer



CANNAVINO, NOW
CHIEF STRATEGIST,
TURNED PCs AROUND

products such as personal digital assistants. IBM's plans for consumers include PDAs and a new messaging service called In Touch (below). But it must also mind the corporate market. Customers have grown weary of shortages of PS/2s and ThinkPad portables. And many are switching from the high-margin PS/2 to the cheaper ValuePoint line.

The most critical challenge in 1994 for Gerstner won't be in PCs. In February, IBM plans to launch two new mainframe lines: one based on traditional

technology, another using IBM RISC (reduced instruction-set computing) chips. The machines should spark fresh demand, but adding a second mainframe architecture could confuse buyers.

The other big challenge will be getting IBM's RISC architecture established as an alternative to Intel Corp.'s microprocessors. This year, IBM will launch new PCs based on the PowerPC chip it is building with Apple and Motorola Inc. But it may have a tough time convincing important business customers that the future lies with this type of high-performance machine rather than with conventional PCs—especially when there is little software for the new IBM machines.

More than the prestige of the IBM PC Co. is at stake. Eventually, PowerPC chips are expected to be used by IBM in everything from consumer products to mainframes. "If they can't make it happen on the PowerPC, then

that calls into question the whole strategy of using the chip across other IBM products," says International Data Corp. analyst Richard Zwetchkenbaum.

That means 1994 will be the year when Gerstner's team must really execute. Even though he has avoided making bold statements of direction, customers and investors are watching and starting to see a new IBM taking shape. And whether Gerstner acknowledges it or not, a vision is taking shape.

By Ira Sager in New York

TELECOMMUNICATIONS

REACH OUT AND TOUCH ANYONE, ANYWHERE

AT&T, Motorola, and IBM promise to link phones, PDAs, and PCs

It's a common dilemma: You need to get an urgent message to someone, but you don't know where she is. She doesn't have a beeper. You try a bunch of phone numbers—no luck. In frustration, you leave a stream of voice-mail messages and electronic-mail notes, hoping one of them gets noticed.

Soon, there may be a better way. American Telephone & Telegraph, Motorola, and IBM are each rolling out what they're calling "intelligent" messaging systems. And if the technology works as promised, it won't just eliminate the frustration of trying to track someone down. It will make practical the any-

time/anywhere communications that cellular phones, personal digital assistants, and e-mail networks were supposed to provide—and the smarts to manage the vaunted Information Superhighway.

Here's how the systems will work: You'll tap out your message on a personal computer or PDA and push a button. The message service will do the rest. If the system determines that the person is not logged onto an e-mail network, it tries the phone. If it gets no answer at one number, it tries another. It can also try a designated co-worker or supervisor, or the person's pager. Then, once it finds the recipient, it delivers



the message by the best method possible: over a wire or the airwaves, by digitized voice over the phone, by fax, personal computer, pager, or a PDA such as Apple Computer Inc.'s Newton. And it sends back a confirmation that the message reached its destination.

At least that's what AT&T, Motorola, and IBM promise. Each says its service will mesh the hodgepodge of largely incompatible communications networks and devices used by corporations and individuals. Their goal: to boost the use of these networks and devices, particularly the growing number of wireless systems, by making them easier to use.

That in itself will be a big business. But these companies have more in mind than delivering your e-mail. AT&T's PersonaLink service, the most ambitious of the three systems, could be programmed to browse electronic news services automatically to find stories of interest to the user. AT&T

says it already has signed up Mead Corp., owner of the Lexis and Nexis services. Using PersonaLink, for example, a medical researcher could

instruct the system to scan the Nexis news data base daily for stories mentioning a certain disease. Similarly, the system could scour on-line shopping services—say, for the best price on a particular VCR. At introduction, the only shopping service available will be a network called eShop, but AT&T says it hopes to have six such services by the time PersonaLink starts up this summer.

GRUNT WORK. What makes all this possible is a new kind of software called an "agent" that, in essence, does the grunt work—dialing up a service, requesting information, and so on. Agents could make PersonaLink a major improvement over today's on-line services, such as Prodigy and America Online. "It makes the information highway work for you, rather than you having to learn about the highway before you get on," says analyst William M. Bluestein of Forrester Research Inc.

AT&T is only the first of several powerful players that will have the new software, which was developed by General Magic Inc., a three-year-old Silicon Valley startup. General Magic's other backers include Apple, Matsushita,

Motorola, Philips, and Sony. Each is expected to use Telescript, the "agent" software, while some also will use Magic Cap, a General Magic program that can work on PDAs, PCs, or cable-TV converter boxes. The company is pushing Telescript as the universal transport medium for wireless and wired messages and transactions.

Meanwhile, Motorola Inc. has its own notion of a universal service. Called Mobile Networks Integration (MNI), it includes software and hardware to mesh various wireless networks, including cellular and paging, with corporate PC networks. This technology would have to be installed in PDAs, portable computers, and cellular phones, as well as in the computers that run phone networks and other communications systems. Since that requires cooperation throughout the computer and communications industries, Motorola wants to form a consortium to run the service. MNI will help get the message to the right party but lacks the sophisticated agent technology of Telescript.

IBM's service, still in the planning stages, is code-named In Touch and is aimed at the corporate market. Its software will link local or long-distance data networks to a variety of wired and wireless communications services. Like the AT&T and Motorola systems, it will have the intelligence to track down a message recipient.

Will these new systems fly? Some industry analysts believe they're just what's needed. Corporate customers probably won't tolerate the growing number of wireless communications networks if each is a world unto itself. Today, for example, it is difficult to



send a message from a portable computer connected to the Ram radio network, owned by BellSouth Corp. and Ram Broadcasting Corp., to one that operates on the Ardis system, owned by IBM and Motorola. That confusion will multiply this year with a new wireless service called cellular digital packet data (CDPD), as well as the emergence of satellite-based phone and data systems.

BRICKWORK. The big question is how well all this new software will work outside the lab. "No one really knows what's going to happen when Telescript is unleashed into the [AT&T] system," says Denise Caruso, an analyst with Friday Holdings, a new-media investment firm. Indeed, General Magic backer Apple Computer says it is too early to rely on Tele-

script. Initially, its new e-World on-line service won't have Telescript but will include agents to relay messages and seek out information. "I can't accomplish everything we've talked about without Telescript," says Peter Friedman, director of Apple Online Services.

AT&T's top multimedia executive, Executive Vice-President Robert M. Kahn, has no such qualms. As Telescript evolves, he says, it could be used to stream through vast libraries of movies, TV shows, and other digitized "content." It is, in his words, one of the "bricks" of the Information Superhighway.

By Bart Ziegler in New York, with Kathy Rebello in San Francisco



TYING IT ALL TOGETHER



AT&T, IBM, and Motorola plan service that will link today's hodgepodge of communications devices and networks. "IntellTeam" software will have systems to track down someone and deliver a message based on phone numbers, pager numbers, e-mail IDs, and other stored information.



THE 1993
BUSINESS WEEK EUROPE ROUNDTABLE
OF CHIEF EXECUTIVES

UNCOMMON COURAGE:
NEW MODELS OF CORPORATE
LEADERSHIP

CREATED IN ASSOCIATION WITH INSEAD

European business has fallen upon hard times. Its corporate structures are under mounting pressure from global competition, fast-changing geopolitical realities, and the worst recession since World War II. The current economic context demands that chief executives restructure their enterprises in preparation for the elusive single market, and engage in aggressive cost-cutting to counteract declining international competitiveness. At the same time, the region faces the potential of widespread labor strife linked to soaring unemployment and job insecurity. Newly opened frontiers for business expansion and the insistent demand for open markets round out a daunting agenda that occupied the attention of CEOs from across Western Europe at the recent *Business Week* Europe Roundtable of Chief Executives.

In today's troubled Europe, corporate chief executives are asking themselves about the role—or the potential role—of business in bringing Europe the turnaround it needs.

Marco Tronchetti Provera, CEO of Pirelli S.p.A., spoke directly to the issue:

"In the past, political crises were often the result of economic difficulties. In the present circumstances, however, the economic crisis is only adding to a pre-existing political crisis. Achieving European economic and monetary unity requires a firm political will which appears to be generally absent. If regional unification is not fully pursued and achieved, it is going to mean a gradual decline of the overall European economy."

CHIEF EXECUTIVES LEADING THE WAY

But, short of launching new political movements, what can a European CEO do? The answer is, create a ready-for-anything company that is prepared to cope and prosper no matter what happens.

Transforming the large, bureaucratic European enterprise is not easy. Although democracy is the dominant governmental form of Western Europe, in business the fiefdom remains all too common. James N. Kelly, managing director Europe and Asia of Gemini Consulting, urges European chief executives to "focus on your marketplace, your customers, your



constituencies. Do that alone and the rest of the job becomes quite clear."

To transform Europe's introverted corporate cultures, Kelly suggests that leaders, "define purpose and the manner in which the constituencies of organizations are to be served in a balanced way. The five main constituencies—employees, suppliers or partners, customers, shareholders, and the community—are often served in an unbalanced way. Managing these constituencies boldly and fairly is a major challenge for the chief executive, one that requires uncommon courage."



"FOCUS ON YOUR MARKETPLACE, YOUR CUSTOMERS, YOUR CONSTITUENCIES. DO THAT ALONE AND THE REST OF THE JOB BECOMES QUITE CLEAR."

James N. Kelly,
Managing Director
Europe and Asia
Gemini Consulting

task at hand. And let's not begin as we usually do by considering our needs as corporate leaders. If we are going to win it is the followers who will do the winning."

Paolo Colombi, president of Sprint International France S. A., says, "Since followers are closer to the market, they are almost always ahead of the leaders. Sprint is working to eliminate the information gap between leaders and followers and thus facilitate decision making. In a customer-driven economy," Colombi says, "the reason why some of us are very successful is that we have implemented the management style required to match rapidly changing customer needs. And we have had the courage to forecast and invest in the new technologies that make that possible."

Every large European company is challenged by the need to transform, but none more so than the state-owned parastatals in newly competitive markets. Preparing Sweden Post to become a limited company was "no easy task," according to

served in a balanced way. The five main constituencies—employees, suppliers or partners, customers, shareholders, and the community—are often served in an unbalanced way. Managing these constituencies boldly and fairly is a major challenge for the chief executive, one that requires uncommon courage."

Corporate constituency management demands a highly flexible leadership style if it is to serve both leaders and followers. Henry Wendt, chairman of SmithKline Beecham plc and author of *Global Embrace*, explains, "We should put the command and control model of leadership aside. In its place, let's begin by considering the needs of our followers as they relate to the



"SINCE FOLLOWERS ARE CLOSER TO THE MARKET, THEY ARE ALMOST ALWAYS AHEAD OF THE LEADERS."

Paolo Colombi,
President
Sprint France

Director General Ulf Dahlsten. But six years of patience in transforming a monopoly culture is paying off. The bill to change the newly efficient and widely praised Sweden Post into a limited company is now before parliament. As Dahlsten calmly states, "Now it will be up to the shareholders and the customers to judge our performance."

THE EUROPEAN ECONOMIC ENVIRONMENT

This is the dying of the dinosaurs," says Edward S. Moerk, president of Campbell Biscuits Europe.

"I just cannot see anybody realistically believing that what we are going through in Europe is a recession. What we are going through is an economic restructuring. Europe is no longer competitive." Touching on the deep pessimism that permeates European business, Moerk says, "We need some leadership from the EC. Maybe they should think about developing a new economic model for Europe rather than worrying about defining European tomatoes."

Gérard Worms, chairman and chief executive officer of Compagnie de Suez, believes business leaders should take a more active role in explaining and offering solutions to the current crisis. "All our internal improvements could be destroyed by the general climate, considering the growth of unemployment in Europe." On the brighter side, Worms sees huge reserves of productivity, quality, and innovation in Europe, even though "government regulation is still too active."

Jonathan Story, Professor of Political Science at INSEAD points out that, "For the first time in history, we have a world labor market. Three billion people have joined this world labor market in the past few years. This is the bottom line of the collapse of communism." This is also among the many causes of Europe's present deep downturn and pessimism. Despite the somber words and warnings, however, the fact is that Europe's best large companies—those that have already restructured—are ready, willing, and able to take on all comers. But on a continent where governments play such a decisive role in business policy, there is little indication that politicians are doing much to help them.



"SO FAR, IN ITS HALTING WAY, THE INTERNATIONAL COMMUNITY HAS TAKEN MOST OF THE RIGHT DECISIONS."
Sir Peter Middleton,
Chairman
Barclays de Zoete Wedd
Limited



BUSINESS ON THE NEW FRONTIER

The euphoria brought on by the fall of the Berlin Wall in 1989, with its expectations of sweeping reforms, new East-West partnerships and a Marshall Plan for Eastern Europe is long past. Professor **David Young**, INSEAD's expert on Eastern Europe notes, "We did not expect the COMECON system to collapse so thoroughly, so quickly. What we've seen in Eastern Europe are economic declines that are unprecedented in peacetime." However, the institutional infrastructure is improving, and, "In Poland, we are seeing the growth of one of the most vibrant and dynamic entrepreneurial sectors on the face of this earth."

But it isn't easy. To succeed in Eastern Europe and the former Soviet Union can require Sisyphean commitment. Describing the 16-year battle behind his company's overnight success in Russia, **George A. Cohon**, senior chairman of McDonald's Restaurants of Canada and vice chairman of Moscow McDonald's, says, "We have never been so integrated into the local economy as we are in



"WE HAVE 3,300 EMPLOYEES AND 8 - COUNT'EM - 8 EXPATRIATES. LACK OF MANAGEMENT TALENT IN RUSSIA? I DON'T KNOW WHAT YOU'RE TALKING ABOUT."

*George A. Cohon,
Senior Chairman,
McDonald's Restaurants
of Canada,
Vice Chairman
Moscow McDonald's*

Moscow." Aside from its core business, Moscow McDonald's is now involved in commercial real estate development and food processing. Answering concerns about management talent in Russia, Cohon cites the figures, "In 1990, we had 80 expatriates helping us. At that time we had about 640 employees. We now have 3,300 employees and 8-count 'em 8-expatriates. Lack of management talent in Russia? I don't know what you're talking about."

According to **Pál Horváth**, president and chief executive officer of the Hungarian Telecommunications Company, growth potential in Eastern Europe is largely contingent on EC membership. "The iron curtain hasn't disappeared entirely yet. Countries on the other side



"IF WESTERN EUROPEAN BUSINESSMEN CAN CONVINCE THE POLITICIANS IN THEIR COUNTRIES THAT PRACTICING FREE TRADE IS AS IMPORTANT AS PREACHING IT, IT WILL BRING BENEFITS..."

*Hanna Suchocka,
Prime Minister of
Poland 1992-1993*

with a similar degree of development, let's say Greece or Portugal, had a chance to enter the European Community. Our countries are knocking on the door of the Community and there is just a very slight and uncertain response from inside."

THE ECONOMIC TRANSFORMATION OF POLAND

With Western Europe's recession growing deeper, there is an impressive ray of economic progress from the East. **Hanna Suchocka**, Prime Minister of Poland, 1992-1993, addressed the *Business Week* Roundtable with optimism, despite her recent electoral defeat: "Poland is becoming Central Europe's success story. In less than four years, we have laid the foundations for a free market economy and developed a flourishing entrepreneurial capability. We are the first country in Eastern Europe to restore economic growth. Our industrial output has increased by 7% in the first six months of this year. We expect economic growth of 4% in '93. That is a remarkable result in recession-stricken Europe. And I am convinced that the recent change of the government in Poland presents no reason for panic."

Michel Marbot, chairman of Danuta sp, came to Poland from his native France four years ago, and quickly became Poland's leading pasta maker. "I believed the collapse of communism was a unique chance to create my own business," he says. Danuta managed to keep all its employees and implement a dynamic expansion strategy. Marbot rapidly built Danuta into the leading player with over 20% of the Polish market and expects to have a 30% share within a couple of years. As he puts it, there's no sense in ignoring "the biggest stable market in Eastern Europe."

The negative notes on the East, says Prime Minister Suchocka, are being rung mainly in the West. She spoke of "the recession-stricken West closing itself into a fortress of prosperity and creating trade barriers that are delaying the process of change." The solution: "If Western European businessmen can convince the politicians in their countries that practicing free trade is as important as preaching it, it will bring benefits not only to our economies but also to foreign investors."



"OUR COUNTRIES ARE KNOCKING ON THE DOOR OF THE EUROPEAN COMMUNITY AND THERE IS JUST A VERY SLIGHT AND UNCERTAIN RESPONSE FROM INSIDE."

*Pál Horváth,
President and
Chief Executive Officer
Hungarian
Telecommunications
Company*



THE NEXT STEP IN INTERNATIONAL TRADE POLICY

As Europe's recession deepens, support for sound international trade policy is wavering. Protectionist temptations are strong. But **Sir Peter Middleton**, chairman of Barclays de Zoete Wedd Limited, finds a hint of optimism in the long view: "So far, in its halting way, the international community has taken most of the right decisions in the period since the last war. This has been a period of enormous expansion in trade and enormous reduction in tariffs. The fact that we are now talking about other things which have been there all the time—competition policy, dumping, all these other things that are on the periphery of tariffs, is really quite encouraging."

In the current crisis over trade and tariff barriers, **Jesús Seade**, deputy director general of the GATT warned of dire consequences should there be "any declining discipline on GATT matters, or any less respect by governments for GATT commitments." **Antonio M. Borges**, one of INSEAD's two deans, put it clearly, "There is no recovery without an upsurge of international trade." Such an upsurge can come only after a battle against protective measures, a battle that should be led by the business

community. "As we discuss trade issues and trade liberalization we are talking about the most explosive issue of economic policy today. If there is one thing that can make a recession persistent and turn it into a long-term disaster, that is protectionism," says Dean Borges.

MOVING TO FLATTER AND FASTER ORGANIZATIONS

Borges adds that the needed upsurge in trade also demands hard work by companies—nothing less than the restructuring of Europe's large enterprises.

The beauty of flatness, explains **Bala Chakravarthy**, Professor of

Business Policy at INSEAD, is that "business managers talk directly to the chief executive. All the other layers are gone and all the in-between translation losses are avoided." However, layering must be done carefully. The risk of losing skills is there and outsourcing can be expensive. Professor Heinz Thanheiser counselled that the managerial levers needed at various stages of this flattening process are different. Top management must develop a more nuanced approach to transformation.

Hubertus von Grünberg, chairman of Continental AG, says, "Instead of just talking about the shape of the organization, I would like to offer the thought of a common objective, the corporation's profitability, shared as an entrepreneurial task by all the company's leadership." The CEO's task then becomes one of "coordinating those tigers."

A flatter organization allowed Philips Communications & Processing Services International "to expand into many fields where the company found unmet needs," says CEO **Rinus Gelijns**. "Flatter organization is necessary, but it is not the aim. The aim is to permit extreme customer orientation, creativity and risk taking." Gelijns took away the mainframes, installed computer networks, and drove a company-wide effort by every employee to learn about "customers, quality, management skills, values, image, product creation and strategic direction."

Ludo Van der Heyden, INSEAD's other dean, summed up at the end of the 1993 *Business Week* Roundtable: "Business is back in Europe as a language and a concept. Now, we need to think and act European." Clarifying a roundtable leitmotif, he insists, "The leadership role of government is actually much more of a follower role, one of creating context. Government is not in charge. Government needs to shift some of the power back to business because business is really where the economic value added is created." Business leaders should "press these demands more forcefully on governments" while assuming greater responsibility vis-à-vis corporate constituencies.

Written by David Powis, a Paris-based corporate communications consultant.



"THE LEADERSHIP ROLE OF GOVERNMENT IS ACTUALLY MORE OF A FOLLOWER ROLE . . . THEY NEED TO SHIFT SOME OF THE POWER BACK TO BUSINESS."

Ludo Van der Heyden,
Dean
INSEAD



"PUT THE COMMAND AND CONTROL MODEL OF LEADERSHIP ASIDE. IF WE ARE GOING TO WIN, IT IS THE FOLLOWERS WHO WILL DO THE WINNING."

Henry Wendt,
Chairman
Smithkline Beecham plc
Author, *Global Embrace*



"ACHIEVING EUROPEAN ECONOMIC AND MONETARY UNITY REQUIRES A FIRM POLITICAL WILL WHICH SEEMS TO BE GENERALLY ABSENT."

Antonio M. Borges,
Dean
Pirelli, S.p.A.

capability:executive programs

LEADING THROUGH



Illustration by Robert Neubecker. As seen in BusinessWeek, August 9, 1993 Issue.



Jack Kemp
Keynote Speaker

The 1994 Business Week Presidents Forum

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BusinessWeek

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CAN THE QUEEN OF COSMETICS KEEP HER CROWN?

L'Oréal must step up its attack on the tough U.S. market

In a modern Paris amphitheater that resembles a Hollywood screening room, a dozen French managers watch a boyish Welshman slather women's face cream on his cheeks. "That's the lightest night cream I've ever tried," marvels Lindsay Owen-Jones. Then, a frown wrinkles his face—tanned from racing his antique Ferrari on Europe's auto circuit. "But are you sure that's what women really want?" asks the chairman of cosmetics giant L'Oréal. "You didn't just fall in love with lightness?"

Taking the hint, L'Oréal's product brass leave the company's "confrontation room," as the strategy-planning center is called, and troop back to their offices to pore over market research one more time. Convinced they have what customers want, they give the word: Bionuit cream, priced at \$27 a jar, will soon hit store shelves in France and Florida as part of the Biotherm line. L'Oréal sells the brand in Europe but has been struggling with it in the U.S. Tough competition from Estée Lauder's older Clinique line and new Origins line has forced L'Oréal to shelve Biotherm's nationwide U.S. launch. For now, it's being sold only in Burdines stores in Florida.

That's a clear sign that L'Oréal, arguably the savviest marketer in cosmetics, is running into resistance. Persuading

women to buy pricey new products means swimming against the marketing tide in an era when plain-wrapper value is in, glossy image is out, and Wal-Mart Stores Inc. is stealing cosmetics sales from Saks Fifth Avenue. But L'Oréal can't afford to give up on new U.S. brand launches. As the world's largest cosmetics company, it is running out of opportunity in its European base. To maintain double-digit growth, it must step up its attack on the American market—by far the biggest slice of the \$60 billion global cosmetics pie.

BULGING WAR CHEST. Even though L'Oréal's U.S. sales have doubled since 1986—to \$1.2 billion in 1993—it still ranks only about fourth in the market, with a modest 7.5% share. That's a poor showing, compared with its 22% in Europe. L'Oréal is weak in the U.S. partly because it lacks full control of its distributor there, Cosmair Inc. Cosmair is owned by L'Oréal's biggest shareholders, food giant Nestlé and Liliane Bettencourt, daughter of L'Oréal's founder—who own 51%. But funds for U.S. expansion have been limited.

The complex arrangement may now be about to change, however: L'Oréal is likely to gain ownership control of Cosmair. "That's the wish of both partners," says André Bettencourt, husband of Liliane and chairman of the holding company that manages her stake and Nestlé's. Moreover, L'Oréal's soaring profits have



GLITZ AND GLAMOUR: OWEN-JONES RELIES ON SUPERMODEL ISABELLA ROSSELLINI

L'OREAL'S GLOBAL CLOUT...

WORLDWIDE SALES AND PROFITS FOR PERSONAL PRODUCTS DIVISIONS

● OPERATING SALES IN BILLIONS
● OPERATING PROFITS IN MILLIONS
DATA: COMPANY REPORTS

L'OREAL

\$5.2 \$561

Mass brands include Studio Line and Colorvix shampoos; Plénitude moisturizers; L'Oréal eye and face makeup; Preference and Casting hair color. Department-store brands include Lancôme cosmetics; Ralph Lauren's Safari and Polo fragrances.

PROCTER & GAMBLE

\$5.4* N.A.

Mass brands include Pantene and Pert Plus shampoos; Camay and Ivory soaps; Oil of Olay and Noxzema moisturizers; Cover Girl and Max Factor makeup; Old Spice and NaVy fragrances. Launched Venezia, a department-store fragrance, in 1993.

UNILEVER

\$4.8* \$46*

Mass brands include Timotei silk, and Rave shampoos; Dial Lever 2000 soaps; Pond's classic line moisturizers. Department-store brands: Elizabeth Arden cosmetics; Calvin Klein fragrances.

*PROCTER & GAMBLE AND UNILEVER FIGURES INCLUDE SOME NONCOSMETICS

built a \$1 billion war chest. Now, Owen-Jones plans a major attack on the U.S. market.

That spells a bitter fight in the fast-changing cosmetics business. Fewer women are buying expensive cosmetics at department stores, L'Oréal's stronghold. They're opting instead to buy their face creams and cleansers at drugstores, supermarkets, and mass merchants, where L'Oréal faces slimmer profit margins and rich, powerful competitors.

The world's biggest marketers of per-

sonal products—Procter & Gamble Co. and Unilever PLC—have been on an acquisition binge in cosmetics (table). And thanks to their core household and personal-products businesses, they know plenty about working with the kind of merchants that are coming to dominate cosmetics retailing.

The looming battle will be a severe test of brand-marketing prowess in an era of skepticism. In 1993, L'Oréal's U.S. ad budget for mass-market brands alone was \$100 million, up 10% from 1992. "It's final judgment day" in the brand world, says Owen-Jones, "and I'm delighted." Now 47, Owen-Jones ran Cosmair in the U.S. before becoming L'Oréal's chairman and CEO in 1988.

L'Oréal's products will survive marketing Armageddon, he claims, because they are truly innovative. In recent years L'Oréal has come up with such patented innovations as a sunscreen that efficiently filters ultraviolet-A rays. Its flagship Lancôme brand pioneered skin cream with wrinkle-hiding liposomes. In hair coloring, a hot new product called Casting avoids the mess of mixing the two basic ingredients. The user simply links two containers and twists. "L'Oréal is very strong in R&D," says an official of Japanese cosmetics giant Shiseido Co. "I hand my hat to them."

SALON STRENGTH. Unfortunately for L'Oréal, both P&G and Unilever also pride themselves on research-based product differentiation—and both have plenty of R&D muscle. To keep his company on top, Owen-Jones has added 300 researchers to a 1,300-person R&D staff and doubled spending, to nearly \$200 million a year, since becoming chairman. He expects L'Oréal sales to continue growing at the recent rate of 11% to 12% a year. Profits, which have jumped 97% since

1988, on a 54% sales rise, will continue to grow faster than sales for "at least four or five years," he says.

To pull that off in a mass-market, low-margin era, Owen-Jones is slashing costs. L'Oréal plans to bond tightly with a smaller group of suppliers, in return for 10% price cuts over the next two years. It's also aiming to reduce its 10,000 formulas, based on 3,000 ingredients, and to standardize packaging.

For growth, Owen-Jones is hunting acquisitions. Last summer, he made one

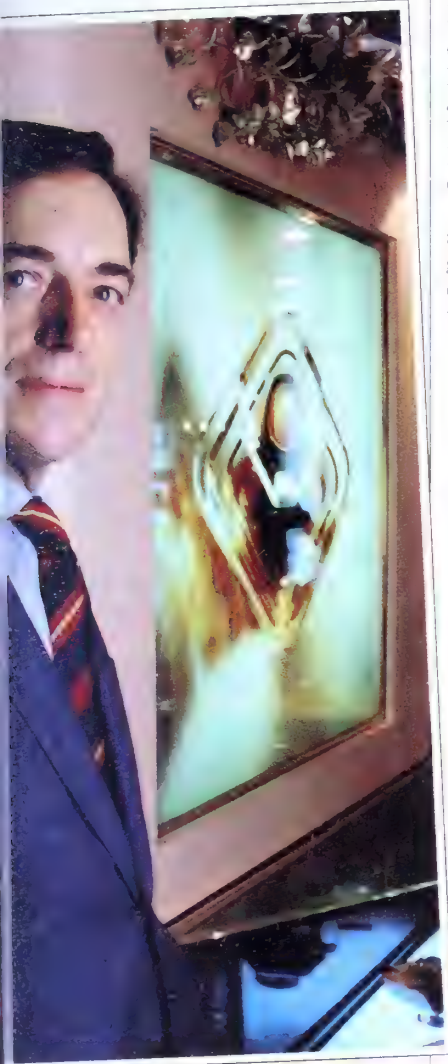
key deal via Cosmair, paying an estimated \$225 million to buy Redken Laboratories Inc., whose hair dyes are strong in beauty salons. Salon products are L'Oréal's original business—starting in 1907, when its chemist founder cooked up hair dye in his Paris apartment and peddled it to local coiffeurs. L'Oréal figures Redken catapults it from a poor 10th to No. 1 in the high-profit U.S. salon market.

Other takeovers will be hard to find, though: Unilever, P&G, and others have already picked

things over. So L'Oréal is also planning to ship a gaggle of European cosmetics brands to the U.S., including Laboratoire Garnier and Helena Rubinstein. And while Biotherm is struggling, L'Oréal has had smash hits with other new brands, notably Plénitude skin creams.

Indeed, the company has been a canny marketer. Rivals may dominate certain niches, but L'Oréal has built strength across the board. Its Lancôme line—which accounts for 12% of company sales—sells in department stores and upscale shops, promoted by glamour model Isabella Rossellini. In Europe, its midpriced lines are in pharmacies. The L'Oréal brand, including hair coloring and Plénitude skin cream, sells in mass outlets. And L'Oréal has moved into fragrances with several designer labels,

L'OREAL'S PUSH IN THE U.S. MEANS CONFRONTING P&G AND UNILEVER. SAYS OWEN-JONES: "IT'S FINAL JUDGMENT DAY—AND I'M DELIGHTED"



ISN'T HIT THE U.S. YET

REAL

CTER & GAMBLE

LEVER

CLEANSERS

U.S. MARKET SHARE
1992 1993

7.6% 7.8%

PERCENT
CHANGE

0.1%

33.0 28.8

4.2%

8.5 10.2

18%

SHAMPOO

U.S. MARKET SHARE
1992 1993

1.6% 1.5%

PERCENT
CHANGE

0.1%

32.3 35.0

27%

1.5 1.0

0.5%

CONDITIONERS

U.S. MARKET SHARE
1992 1993

4.8% 5.1%

PERCENT
CHANGE

0.3%

13.3 15.3

10%

1.7 1.2

0.5%

LIVE MONTHS ENDING NOV. 30, 1993. INCLUDES DRUGSTORES, SUPERMARKETS, AND MASS MERCHANTS; EXCLUDES DEPARTMENT STORES AND WAREHOUSE CLUBS.

DATA: TOWNE OLLER & ASSOCIATES

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including Ralph Lauren and Giorgio Armani.

Its deep product range has let L'Oréal innovate first in a high-priced brand and then gradually let the new feature trickle down to cheaper ones. Lancôme beat rivals in 1986 by putting wrinkle-hiding liposomes in its Niosôme face cream, at \$50 per jar. Three years later, as competitors were matching Lancôme's cream, L'Oréal's Plénitude launched a liposome product, aimed at supermarkets, selling for \$8.

Cosmetics gurus consider Plénitude's U.S. launch in 1989 a marketing watershed. Although Oil of Olay's \$5 lotion seemed invulnerable, L'Oréal spent perhaps \$50 million to persuade shoppers to pay \$3 more for its cream. Plénitude quickly became No. 4. By proving that supermarket shoppers will pay for perceived quality, L'Oréal "changed the mass skin-care market forever," says consultant Suzanne Grayson.

NEW WRINKLE. L'Oréal's inventive rivals are also bringing cosmetic class to the masses, though. Last year, for example, Unilever's Chesebrough-Pond's division introduced Pond's Skin Smoothing Capsules, which the company says is the first upmarket product of its kind to be sold in drugstores. And this year, Chesebrough will spend \$40 million launching two "anti-aging" Pond's products. Nor is P&G sitting idly by: In the past few years, it has introduced a flood of new products under the Oil of Olay name.

The man helping L'Oréal confront these challenges—"O.J." to everyone—click their heels. "He has a very forceful personality," says Marcel Lafforgue, L'Oréal's production manager. "When he says something, *whsst!*—everybody moves." Owen-Jones, who has an M.B.A. from France's INSEAD, is currently urging everybody to move faster than ever. He has restructured to market quickly around the world. Casting hair color was launched in France a year ago and is already in 70 countries. Such global roles used to take several years.

In his Paris office, where race-car photos dot the walls, Owen-Jones says the upheavals in his business don't faze him. "The real challenge is to standardize conventional brands," he says. "That's a situation that suits us perfectly." He's probably right. But chances are he'll be spending more time in L'Oréal's confrontation room in coming years, asking questions and sending product managers back to the drawing board.

By Stewart Toy in Paris, with Laure Zinn in New York, Zachary Schiller in Cleveland, Robert Neff in Tokyo, and Paula Dwyer in London

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Illustration by John Hersey As seen in BusinessWeek, January 11, 1993 Issue

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HOW TO SHARE THE WEALTH AND KEEP CONTROL

Stanley Graham, a 67-year-old New York psychologist, was frustrated with the way he was transferring his wealth to his heirs. An astute investor with several million dollars in stocks and bonds, Graham had to yield control of the \$340,000 that he and his wife, Dorothy, were giving yearly to 17 family members. Although the Gramams were taking advantage of the annual \$10,000 gift-tax exclusion available to each individual, "many of our nieces, nephews, and grandchildren are very young and can't manage their own money," Graham explains. "So I tended to give them conservative investments, like zero-coupon bonds. But I'm still active in investing, and I often see opportunities that would earn them a better return."

In October, Graham found a better way: putting his portfolio in a family limited partnership. Under this business arrangement, Graham and his wife act as general partners in charge of all investment decisions. The couple expect to continue passing \$340,000 annually to family members, but now, they'll do it via limited-partnership interests.

BIG SAVINGS. Despite a reputation as one of the louisiest investments of the 1980s, limited partnerships are becoming a popular way for affluent families to transfer wealth and trim estate taxes. "Anyone with \$1 million or more in investments or a successful

family business should consider it," says Alexander A. Bove Jr., a Boston attorney and author of *The Complete Book of Wills & Estates*. People at this level usually face the maximum estate-tax liability and can save as much as 60% or more. And they're valid in every state except Louisiana.

Allowing parents to give away wealth without giving up control is only one of the

advantages.

Another is that stocks, real estate, and other assets put in a limited partnership can sometimes be valued at 10% to 60% below market value for gift-tax reasons. The discount reflects the restrictions on family-partnership interests that make them difficult to buy or sell. The partnerships also provide protection from creditors in lawsuits and bankruptcy proceedings.

A family limited partnership has two types of owners. The parents, as general partners, manage the assets they have transferred and can draw a small salary. Initially, the husband and wife are also the sole limited partners. Typically, they dole out small limited-partnership interests annually to the kids to skirt gift taxes. Even when the children eventually own the majority stake, they have little say over partnership assets, including whether any income earned should be distributed. When the partnership is dissolved, usually after the second parent dies, the assets are proportionally divided among the partners. The parents can hold as little as a 1% stake and still retain control as general partners.

DISCOUNT. Because of such restrictions, limited-partnership interests qualify for a discount from market value for gift- and sometimes income-tax purposes. Let's say a husband and wife put a \$2 million office building they own in a family limited partnership. In the first year, they give each of their four children 1.5% interest, worth \$30,000 in underlying assets. The children value the partnership interests at a third less, or \$20,000. Using their combined \$20,000 gift-tax exemption for each child, the parents transfer the partnership interests tax-free, shielding an extra \$40,000 from gift taxes.

Generally, family limited partnerships are best for investment real estate, securities, and sometimes, life insurance.



insurance policies. Families with a successful business can also benefit from running the enterprise as a limited partnership. Dick Jones, a partner at accountant Ernst & Young in San Antonio, says a couple who are clients of his turned their \$20 million oil-and-gas exploration business into a limited partnership two years ago to more easily transfer a majority stake to their four children. Previously, the couple were sole proprietors of the business, so they would have needed to deed oil wells and other assets separately to their heirs. In this case, the parents immediately sold 1%, or \$18 million, of underlying business assets to their children, with major restrictions on any future sale. Based on the assets' lack of marketability, the family opted for a 60% discount for tax purposes, and the parents paid income taxes on a sale

of \$7.2 million in limited-partnership interests.

This limited partnership will also prevent bickering over how the family business should be run after the parents are gone. Since only one son is involved in the business, the parents designated

YOU GET TAX BENEFITS AND PROTECTION FROM CREDITORS, TOO

him the next general partner. And because the parents don't want the business sold to outsiders, the arrangement requires partners intent on selling to give the others the right of first refusal.

The thorniest issue is deciding how much discount from market value to take on

partnership interests. "You're entitled to a discount, but how much is a gray area," says Gideon Rothschild, a New York attorney specializing in estate planning. A typical discount is 30%, but the Internal Revenue Service has accepted figures as high as 60%. Generally, it's best to be conservative; otherwise, you might be subject to underpayment penalties.

Another potential problem is the limited partners' share of income taxes on any partnership earnings. "Parents have to be prepared to distribute enough cash to pay the annual income taxes or else you're dealing the kids a bad hand," says David Rhine, a partner at accountants BDO Seidman in New York. But if the limited partners are in a lower tax bracket, the parents will pay less overall.

Experienced estate-planning attorneys typically charge

\$1,000 to \$2,500 to draft the partnership document, but the tab can swell to \$5,000 or more. It may cost up to \$2,000 just to have a professional appraiser determine the market value of assets to help figure the discount.

BREATHE EASY. Still, family limited partnerships can be worth the effort, in part because they distance wealth from a creditor's reach. Because limited-partnership assets are considered personal property, a partner's creditors can't demand what they're owed from the partnership interests. In the Texas oil couple's case, the partnership protects their children's assets from lawsuits, such as one involving a well explosion that injures or kills a worker.

You can't take it with you, of course, but in many cases, a family limited partnership may well be the next best thing.

Susan Scherreik

Standard & Poor's has toughened its criteria for judging the health of electric utilities, so investors who rely on utility stocks for steady dividend income would take heed. "People view this industry as stable, but it's fraught with risk," says Daniel Scotto, managing director of fixed-income research at Donaldson, Lufkin & Jenrette.

The cause of alarm: deregulation of an industry that is operated as a monopoly for 50 years. Because of recent regulatory changes encouraging competition as well as demand by big corporate users for lower-cost electricity, power companies are cutting prices by as much as 5% to their best customers.

AN SQUEEZE. With competition only expected to intensify,

S&P has begun to evaluate electric utilities based on their ability to thrive in the tougher environment. In the 10 months since the criteria revision, S&P has downgraded credit ratings for six utilities and singled out about 40 others for possible downgrade over two to three years.

Smart Money

RAISING A YELLOW FLAG ON UTILITIES

Downgrades hurt utilities by raising their costs of borrowing. Lower ratings can also damage stock prices because investors view downgrades as a sign of financial woes.

Despite the gloomy out-

look, utility stocks and mutual funds have been popular with cautious investors in the past few years because they offer higher returns than bank certificates of deposit but are viewed as less vola-

tile than other stocks. That has pushed up stock prices and spawned more than two dozen new utility mutual funds in the past year.

The mutual funds earned an average 14.7% total re-

UTILITIES ON WATCH

Company	Rating	Dividend yield	Est. 1993 EPS change
ALLEGHENY POWER	AA-	6.20%	+3.0%
CENTERIOR ENERGY	BB*	12.40	+9.0
CENTRAL MAINE POWER	BBB-	6.15	-6.0
DELMARVA POWER & LIGHT	A*	6.50	+14.0
SCECORP.	A+	7.0	-6.0

* Recently downgraded

DATA: STANDARD & POOR'S CORP., PRUDENTIAL SECURITIES INC.

look, utility stocks and mutual funds have been popular with cautious investors in the past few years because they offer higher returns than bank certificates of deposit but are viewed as less vola-

turn—reflecting price changes and dividends—through Dec. 31, according to Morningstar, vs. a 10.08% return posted by the S&P 500-stock index. Utility stocks tend to move in tandem with long-term

bonds and thus have benefited from falling interest rates. But if rates rise again as the economy perks up, utility stocks won't be as appealing.

KEEP IT SIMPLE. Because of these developments, analysts advise investors to pare back utility holdings and to be picky about what they keep. "The winners are likely to be plain-vanilla, coal-based electric utilities," says Scotto. His picks include Cincinnati Gas & Electric and Public Service of Indiana. Scotto advises avoiding electric utilities that are highly dependent on nuclear energy. He also suggests sticking to utilities that pay no more in dividends than the 5.8% industry average. Those with larger dividends are more likely to cut them if profits are squeezed.

Many foreign utilities will experience rapid growth in the next few years, especially those in Latin America and Asia. So Prudential Securities analyst Barry Abramson advises selling domestic utilities and buying mutual funds with a portion of assets in overseas utility stocks.

Susan Scherreik

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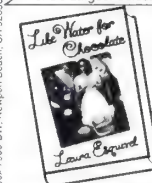
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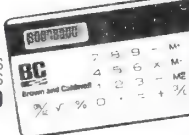
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Help is on the way, and it's mostly from such little-understood players as factors, forfaiters, and export trading companies. Herbert Ouida, a trade expert at the Port Authority of New York & New Jersey, explains that factors have their origins in the retail trade, while forfaiters started out financing international capital-goods projects. Trading companies got a burst of publicity in the early 1980s, thanks to a crash of the grandiose trading arms created by Sears Roebuck and Bank of America. But now many smaller, more specialized companies have sprung up in trading, management, and finance. It's not that these newcom-

ers will necessarily handle a transaction for less money than a bank. Leslie Stroh, president of Trade Data Reports, a New York consulting firm, says that an exporter should be prepared to pay 2.5% to 3% of an export order. But there's a profound difference in the way the more aggressive lenders approach a transaction.

FED HELP. A typical banker, for example, will not recognize the full value of foreign receivables—the money your customer owes. Instead, the bank may want to secure your stateside corporate assets as collateral. And it may require your corporate and personal banking business.

ing arrangements with access to medical and personal care. The 10-page pamphlet lists questions to ask and sources for more information. It's available from the Council of Better Business Bureaus, De-

Factors, on the other hand, recognize foreign receivables and will give you 85% of your money before the customer pays—if the deal is insured by the Export-Import Bank in Washington. Ex-Im, which has long been accused of caring only about such giants as Boeing and Westinghouse, is trying to spread its coverage to first-time exporters.

It has agreed to work with such private-sector intermediaries as Honolulu's Factor One Funding Resources. Sales Manager Kenneth Kleban says the exporter receives the rest of the cash, minus Factor One's fees of 1.5% to 3%, after the foreign customer pays.

For a referral to a lender that uses Ex-Im insurance, call 800 424-5201.

Forfait houses, such as London Forfaiting, also rec-

from the buyer. In some cases, they convert receivable into commercial paper that is salable.

A trading company will often go a step further, by taking title to your exports and handling the shipment. The best traders will work with guarantees and insurance programs of U.S. and foreign governments. And because trading companies tend to specialize in, say, scientific instruments, chances are they have the expertise to do deals in the toughest countries. For a lead, call the National Association of Export Companies at 212 725-3311.

NO SCHMOOZING. Bear in mind that these professionals aren't interested in chatting with you about the possibility of exporting. What gets their attention is a signed contract, plus some indication that you are committed to further shipments. And remember to check the references of these nonbank lenders.



EXPORT FINANCING OPTIONS

FORFAIT FINANCING Forfaiters accept a foreign receivable—the money you are owed—when it's backed by a government guarantee. They often convert that to commercial paper, which is negotiable. Bottom line: You get paid quickly, minus a small fee.

FACTORING Factors also recognize your foreign receivable, so you get most of your money quickly. Works best for 30-, 60-, or 90-day transactions.

EXPORT TRADING COMPANIES Some will take title to your goods and complete the transaction. You get your money, and you don't even handle the shipping. Their fees are slightly higher.

BANKS If you want to go the traditional route and obtain a letter of credit, your best bet is to try regional and foreign-based banks. Call 800 49AXCAP for a referral.

recognize the value of foreign receivables, but they usually work with guarantees issued by foreign banks and governments. These forfaiters also give you most of your money up front, before they collect

ers, since they're not federally regulated.

Whatever path you choose, the first transaction will be the hardest. But rich rewards await the exporter who learns to play the game. *Bill Holst*

Worth Noting

■ **PLAN AHEAD.** *Tips On... Continuing Care Retirement Communities* is worth looking at if you're investigating liv-

partment 023, Washington, D.C. 20042. Enclose \$1 and a self-addressed envelope.

■ **FINANCIAL EDUCATION.** Want to learn how to analyze a company's balance sheet, cash flow, income, and own-

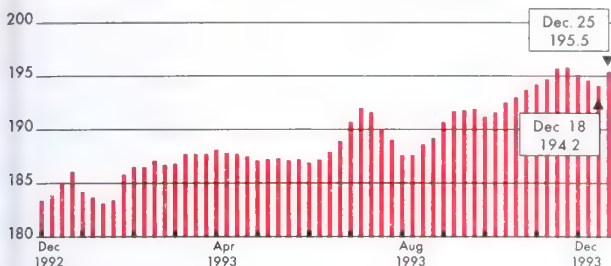
er's equity statements? A 10-page paperback, *How to Read a Financial Statement*, will show you how. It costs \$7 from the American Institute for Economic Research, Great Barrington, Mass., 01230-1000.

BusinessWeek Index

PRODUCTION

Change from last week: 0.6%
Change from last year: 5.0%

1967=100 (four-week moving average)

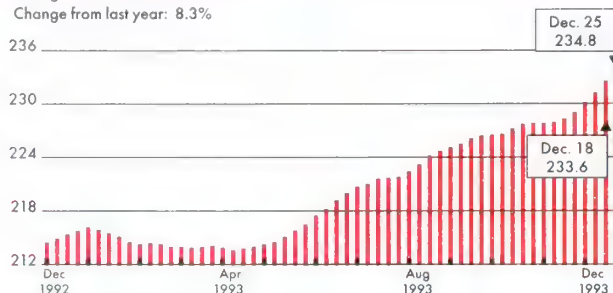


The production index rebounded during the week ended Dec. 25. Strong auto and truck production in previous weeks fueled the gain, while electric power, crude-oil refining, steel, and lumber output, and rail-freight traffic increased as well. Coal production was down, and data for paper and paperboard were unavailable. Before calculation of the four-week moving average, the index rose to 199.1 from 196 in the previous week and 193.6 in the week of Dec. 11.

BW production index copyright 1994 by McGraw-Hill Inc.

LEADING

Change from last week: 0.5%
Change from last year: 8.3%



The leading index increased slightly during the week ended Dec. 25. Higher stock prices and lower bond yields offset slower growth in materials prices, real estate loans, and the M2 money supply. The number of large-business failures was basically unchanged. Before calculation of the four-week moving average, the index stood at 235.5, up from 235.1 in the previous week but just a bit below the 235.6 reading of Dec. 11.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/1) thous. of net tons	1,864	1,843#	5.8
TRUCKS (1/1) units	0	116,257#	NA
TRUCKS (1/1) units	0	95,631#	NA
ELECTRIC POWER (1/1) millions of kilowatt-hours	59,782	60,243#	10.5
CRUDE-OIL REFINING (1/1) thous. of bbl./day	13,690	13,437#	2.8
STEEL (12/25) thous. of net tons	15,796#	18,362	9.2
PAPERBOARD (12/25) thous. of tons	NA#	828.9	NA
PAPER (12/25) thous. of tons	NA#	801.0	NA
LUMBER (12/25) millions of ft.	336.6#	480.9	25.6
RAIL FREIGHT (12/25) billions of ton-miles	18.0#	22.2	11.8

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SPPA, Association American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (1/5)	1.12	1.12	1.25
MARK (1/5)	1.74	1.74	1.65
POUND (1/5)	1.48	1.48	1.53
FRANC (1/5)	5.90	5.89	5.60
DOLLAR (1/5)	1.31	1.33	1.28
FRANC (1/5)	1.48	1.48	1.50
PESO (1/5)	3.109	3.106	3.105

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British and expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
WHEAT (1/5) \$/bushel	395.250	386.100	19.9
SCRAP (1/4) #1 heavy, \$/ton	139.50	139.50	50.8
ODSTUFFS (1/3) index, 1967=100	219.2	221.7	10.5
PPER (1/1) ¢/lb.	85.7	85.3	-19.2
JMINUM (1/1) ¢/lb.	53.4	53.3	-6.5
FEAT (1/1) #2 hard, \$/bu.	4.23	4.21	13.7
IRON (1/1) strict low middling 1-1/16 in., ¢/lb.	62.35	60.98	19.2

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals, Kansas City market, Memphis market

W data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/31) S&P 500	469.43	466.46	7.2
CORPORATE BOND YIELD, Aaa (12/31)	6.94%	6.95%	-11.9
INDUSTRIAL MATERIALS PRICES (12/31)	94.2	94.2	-3.8
BUSINESS FAILURES (12/24)	302	306	-6.5
REAL ESTATE LOANS (12/22) billions	NA	\$412.2r	NA
MONEY SUPPLY, M2 (12/20) billions	\$3,524.5	\$3,524.4r	1.9
INITIAL CLAIMS, UNEMPLOYMENT (12/18) thous.	330	328	-1.5

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTRUCTION SPENDING (Nov.) annual rate, billions	\$497.7	\$488.9r	10.8
MANUFACTURERS' INVENTORIES (Nov.) billions	\$380.8	\$380.3r	-0.1
MANUFACTURING SHIPMENTS (Nov.) billions	\$264.7	\$260.5	6.5
PURCHASING MANAGERS' INDEX (Dec.)	57.9%	55.7%	4.5

Sources: Census Bureau, Commerce Dept., National Assn. of Purchasing Management

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/20)	\$1,136.3	\$1,128.5r	11.4
BANKS' BUSINESS LOANS (12/22)	272.9	273.1r	-2.0
FREE RESERVES (12/22)	805r	1,111r	-31.0
NONFINANCIAL COMMERCIAL PAPER (12/22)	153.4	158.0	5.8

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/4)	3.03%	2.99%	3.03%
PRIME (1/5)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (1/4)	3.29	3.32	3.35
CERTIFICATES OF DEPOSIT 3-MONTH (1/5)	3.25	3.24	3.27
EURODOLLAR 3-MONTH (12/31)	3.23	3.17	3.34

Sources: Federal Reserve Board, First Boston

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Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

A.M. Best 24
A.R. Schmeidler 74
Adtech 81
Allstate Insurance 39
America West 37
American Airlines 36, 85
American Express 6, 82
AMR 36
Anheuser-Busch 29
Apple Computer 39, 74, 82
AT&T 26, 78, 83

B

Balloon Works 81
Bank of America 98
Bankers Trust 69
BASF 81
Bear, Stearns 27
Beatrice 39
Bell Atlantic 26
BellSouth 83
Benetton 8
Berkshire Capital 73
Boeing 65, 98
Borden 6, 28, 29
British
Telecommunications 26
Budget Rent a Car 36
Burdines 90

C

Casio 78
Chesebrough-Pond's 90
Chicago Corp. 73
Ciba-Geigy 81
Cincinatti Gas & Electric 96
Citibank 39
Columbia Pictures 35
Compaq Computer 82
ConCorde Securities 44
Conner Peripherals 74
Continental Airlines 37
Corning 78
Cosmair 90

D

Decision Strategies
Group 12
Delta Air Lines 37

Digital Equipment 45
Dillard Department
Stores 32
Donaldson, Lufkin &
Jenrette 96

E

Ernst & Young 46, 94

F

Factor One Funding
Resources 98
Federal Systems 82
Federated Department
Stores 32
First Jersey Securities 39
First of Michigan 27
Forrester Research 83
Frederick's of
Hollywood 68
Friday Holdings 83
Fujitsu 78
Furman Selz 37

G

Gartner Group 82
General Magic 83
GM 39
Goldman, Sachs 27, 65, 69
Grantchester Securities 32
Groupe Bull 45

H

Hanson 29
Hayes & Associates 81
HCIA 48
Hewlett-Packard 39, 45,
74, 81

Hilton Hotels 36

Hitachi 78
HNC 68
Hoechst Celanese 81
Honeywell 78
Host Marriott 48

I

IBM 36, 39, 45, 74, 82
In Focus Systems 78
Intel 82
International Data 82

J

Jardine Fleming 78
JMB Realty 32

K

Kemper Financial 20
Kidder, Peabody 28, 32
Kmart 28
Kopin 78

L

Lens 29
Link Resources 82
Lockheed 81
London Forfaiting 98
Loral 82

M

Makro 28
Mannesmann 45
Marriott 36
Marsh & McLennan 29
Massachusetts Financial
Services 73
Matsushita 83
May Department Stores 32
MCA 35, 39
McCaw Cellular
Communications 26
McGraw-Hill 22
MCI Communications 26
McKinsey 82
Mead 83
Melvin Simon &
Associates 32
Merck 39
Merrill Lynch 74
Metropolitan Life
Insurance 24
Microsoft 82
MMS International 22
Morris Air 37
Motif 78
Motorola 74, 78, 82

N

National Health
Advisors 48
NEC 78
New Media Associates 82
New York Life Insurance 24

O

OfficeMax 28
OIS Optical Imaging
Systems 78
Olivetti 45

P

Pace Membership
Warehouse 28
Payless Drug Stores 28
Pemex 47
Penn America 74
PepisCo 29
Philips 45, 83
Photonics Imaging 78
Pioneer First Polish Trust 44
Pioneer Group 44
Pixel International 78
Pizza Hut 81
PlanEcon 44
Procter & Gamble 90

Prudential Insurance 24, 3

Prudential Securities 96

Q

Quantum Fund 27

R

R.H. Macy 6, 32
Ram Broadcasting 83
Red-ken Laboratories 90
RJR Nabisco 6, 29, 82
Road Scholar
Software 84A
Rockwell International 78

S

Saks Fifth Avenue 90
Salomon Brothers 69, 82
Sanyo 78
Sara Lee 39
Sears 82, 98
Sharp 78
Shiseido 90
Smithfield Foods 74
Solectron. 74
Sony 35, 83
Southwest Airlines 37
Southwestern Bell 26
Sports Authority 28
Sprint 26
Standard & Poor's 96
Stanford Resources 78
Sun Microsystems 45, 74
Symbol Technologies 84.

T

Tacan 81
Tektronix 78
Tele-Communications 26
Texas Instruments 78
Thorn Apple Valley 74
Time Warner 6, 26
Toshiba 78
Trade Data Reports 98
TWA 39

U

UBS Securities 20
Unilever 90
United Airlines 6, 37
United Asset
Management 73
USAir 37

W

Wal-Mart Stores 12, 28
90
Walt Disney 35, 73
Western Union 26
Westinghouse 6, 98

X

Xerox 78

Y

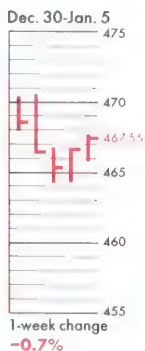
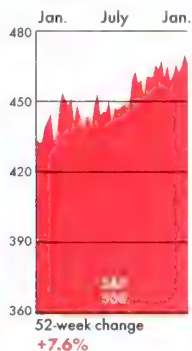
Yield Enhancement
Strategists 69

Investment Figures of the Week

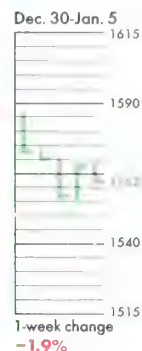
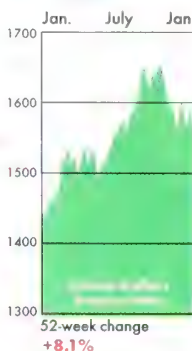
COMMENTARY

Stocks began the New Year on an upbeat note, with the Dow Jones Industrials hitting yet another record on Jan. 5. But the broader-based Standard & Poor's 500-stock index is still lagging. Its gain over the past year is far below the other indexes. The market's length is especially heartening in light of the recent uptick in interest rates—a result of a rebounding economy—and the sharp increase in commodity prices. Can U.S. stocks push higher? Three of the technical indicators shown on this page say yes.

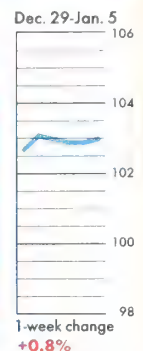
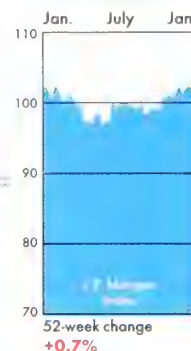
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3798.8	0.1	14.9
S&P 500 COMPANIES (S&P MidCap Index)	178.3	0.3	12.0
RUSSELL 2000 COMPANIES (Russell 2000)	258.0	1.7	16.4
RUSSELL 3000 COMPANIES (Russell 3000)	270.0	-0.4	8.4

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change 52-week
DAX (FINANCIAL TIMES 100)	3379.2	-1.0	19.6
NIKKEI (NIKKEI INDEX)	17,783.5	3.8	6.0
TSE (TSE COMPOSITE)	4401.1	2.6	31.3

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.14%	3.12%	3.16%
30-YEAR TREASURY BOND YIELD	6.41%	6.24%	7.35%
S&P 500 DIVIDEND YIELD	2.48%	2.36%	2.91%
S&P 500 PRICE/EARNINGS RATIO	19.4	23.1	19.9

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	459.6	458.6	Positive
Stocks above 26-week moving average	51.6%	46.5%	Negative
Speculative sentiment: Put/call ratio	0.42	0.37	Positive
Insider sentiment: Vickers sell/buy ratio	1.78	1.75	Positive

INDUSTRY GROUPS

WEEK-LEADERS

	% change 4-week	% change 52-week
GOLD MINING	14.7	95.1
HOSPITAL MANAGEMENT	11.9	41.2
HOTELS AND MOTELS	11.2	87.0
METALS	8.5	10.1
COMMUNICATIONS EQUIPMENT	8.0	-1.8

Strongest stock in group

	% change 4-week	% change 52-week	Price
HOMESTAKE MINING	17.9	117.0	23 7/8
COMMUNITY PSYCHIATRIC CENTERS	15.1	48.8	15 1/4
HILTON HOTELS	19.9	36.9	59 3/8
CYPRUS AMAX MINERALS	12.6	-14.7	26 7/8
ANDREW	12.8	53.8	37 1/2

WEEK-LAGGARDS

	% change 4-week	% change 52-week
ROKERAGE FIRMS	-13.0	27.1
TOYS	-7.6	7.6
REGIONAL TELEPHONE COMPANIES	-6.2	7.3
SPECIALTY APPAREL RETAILERS	-6.0	-18.7
GENERAL MERCHANDISE CHAINS	-5.6	-7.1

Weakest stock in group

	% change 4-week	% change 52-week	Price
MERRILL LYNCH	-17.9	32.8	39 1/2
MATTEL	-8.4	7.4	27 1/4
BELL ATLANTIC	-8.3	10.2	56 1/2
CHARMING SHOPPES	-8.3	-39.3	11
WAL-MART STORES	-8.0	-19.5	25 3/4

MUTUAL FUNDS

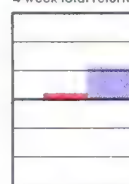
LEADERS

	4-week total return	%
MORGAN STANLEY INSTITUTIONAL ASIAN EQUITY	19.9	
MORGAN STANLEY ASIAN GROWTH A	18.4	
DELITY SOUTHEAST ASIA	18.1	
	52-week total return	%
MORGAN STANLEY INSTITUTIONAL ASIAN EQUITY	264.9	
MORGAN STANLEY ASIAN GROWTH A	123.9	
MORGAN STANLEY SOUTHEAST ASIA	113.4	

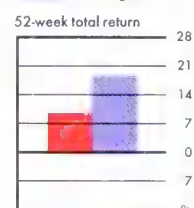
LAGGARDS

	4-week total return	%
FORUM INVESTORS STOCK	-17.8	
INVESCO STRATEGIC TECHNOLOGY	-11.1	
FLEX-FUNDS MUIRFIELD	-10.2	
	52-week total return	%
PILGRIM CORPORATE UTILITIES	-17.7	
FORUM INVESTORS STOCK	-10.9	
DEAN WITTER CAPITAL GROWTH SECURITIES	-9.0	

S&P 500



Average fund



RELATIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in each portfolio

Percentages indicate daily total returns

Foreign stocks
\$14,361
+0.83%

Treasury bonds
\$11,961
-1.54%

Gold
\$11,817
+1.70%

U.S. stocks
\$11,044
-0.86%

Money market fund
\$10,212
+0.04%

Data on this page are as of market close Wednesday, Jan. 5, 1994, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close

Jan. 4. Mutual fund returns are as of Dec. 31, 1993. Relative portfolios are valued as of Jan. 4. A more detailed explanation of this page is available on request.

CONTAINMENT, NINETIES STYLE

As President Clinton embarks on an eight-day trip to Europe to address a NATO summit and meet with Russian President Boris Yeltsin, the conventional wisdom in Washington is that his foreign policy is a mess. From Bosnia to Haiti to Somalia, the Administration lurches from crisis to crisis, with no coherent strategy. Even its support of Yeltsin, it is said, has been battered by the election of anti-reform fascists and communists.

The Clinton Administration's record is, in fact, more complex. It is extremely successful in foreign-policy matters when the focus is on economics. To its credit, this is the first Administration to elevate national economic interests to a strategic position in foreign policy. Clinton promotes U.S. exports and has fought for international free trade with the North American Free Trade Agreement and the General Agreement on Tariffs & Trade.

Where the Clinton Administration stumbles is in defining the geopolitical interests of the U.S. in the post-cold-war era. For a brief time, it appeared that Washington could relax. The worry about nuclear war was over, and nothing on the international political horizon threatened American security, including the nationalist genocide in Bosnia.

The ascent of Vladimir V. Zhirinovsky signals an end to this fleeting period of grace. The rise of nationalist extremism in Europe and elsewhere is a potent new force that may soon be a serious threat to U.S. security. As market forces sweep through once-authoritarian countries, creating new wealth for millions of people, they are also causing others to lose status and income. Those dispossessed on the road to capitalism are turning increasingly to the extreme right or left. Russia, Poland, Hungary, and Ukraine already have significant ultranationalist political organizations. No less than Lech Walesa warns that extremist forces in Eastern Europe could unite and bring about another cold war.

In this world that Washington must now navigate, a possible new Clinton foreign policy comes into focus. With the end of "containment," the main element of any U.S. foreign policy must now be "enlargement"—unyielding promotion of an open global-market economy.

But to guarantee the spread of market economies overseas, the U.S. must also contain the forces of reaction. That won't be easy. The U.S. is not about to go to war to promote an open global economy in the same way that it went to contain communism. It can, however, do a great deal.

Should Poland, Hungary, and the Czech Republic, for example, be admitted into NATO or excluded for fear of offending Russia? The answer, under the doctrine of enlargement, is clearly "included." They should be integrated into both the economic European Union and NATO to preserve the nascent market economies and to contain the nationalists who threaten them.

Should Washington encourage the International Monetary Fund to loosen up its aid-giving to Moscow? Sure, but other approaches are needed even more. Outside aid will have little impact in transforming Russia into a market economy. China is booming because of foreign investment and exports that support a state sector still employing millions. Russia needs a similar strategy.

Washington should be strongly promoting the passage of laws governing private property, contracts, and investment. Pushing the market economy deep inside Russia and generating strong economic growth is priority No. 1.

It is this new architecture for U.S. foreign policy that President Clinton should keep firmly in mind as he journeys to Europe. Expanding global markets, containing extremists, and building new middle classes overseas is the way to further worldwide prosperity, spread democracy, and ensure the peace.

THE FORGOTTEN HEALTH ISSUE: QUALITY

The national debate about health reform has focused on two issues: cost and universal coverage. Not enough has been said about a third issue, quality of care, except to insist that it should never decline.

Despite denials, the drive to lower costs is already eroding the ambient quality of medical care (page 48). Convenience and comfort of care are much lower than even a few years ago. Cancer patients, for example, are sent home sick and told to return to outpatient clinics for chemotherapy treatment. Whether in city or suburbs or the country, this is a difficult trip for the ill. What is still unclear is whether the move to cut costs is now dangerously close to threatening the critical health of patients.

The Clinton Administration's proposal to reform the system won't help matters. Medicine has already become heav-

ily bureaucratized in the fight to contain costs. Doctors and nurses spend inordinate time haggling with insurance officials over particular medical procedures or the length of hospital stay. Is it reasonable to assume that injecting more bureaucracy and more price regulation into the system will result in better care? We doubt it.

It may be that Americans will have to learn to live with a lower level of care. As hospitals decentralize to save money, patients will have to endure forms of medicine less convenient for them but more efficient for the providers.

Yet the line between inconvenience and harm is a fragile one when it comes to health care. The worry is that a massive new government health bureaucracy will push the current decline in access, convenience, and comfort to the point where it hurts basic medical care.



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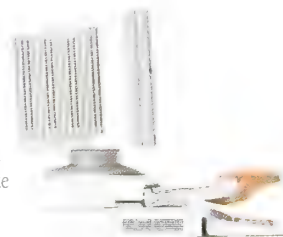
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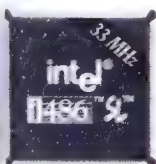
- NiCd battery

BOTH MODELS

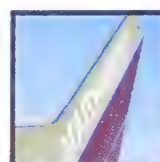
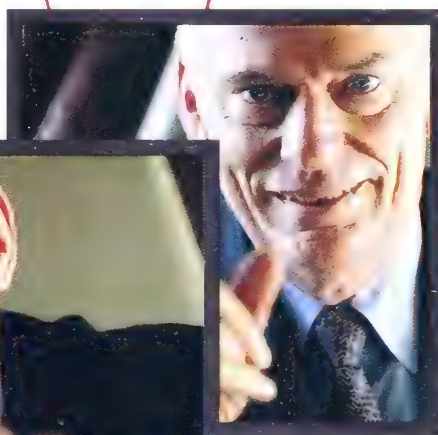
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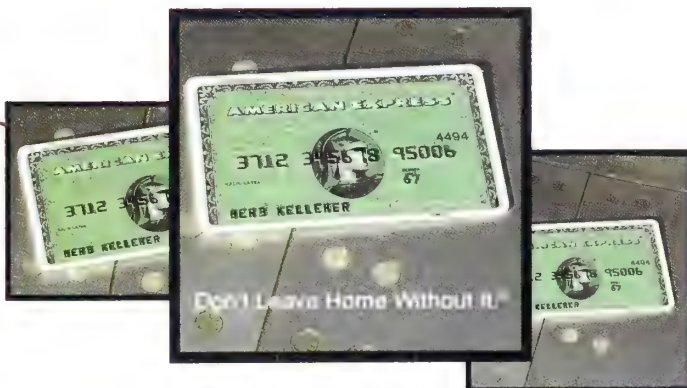


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people something of value. That's a lot better than getting a mint when you walk off the plane.

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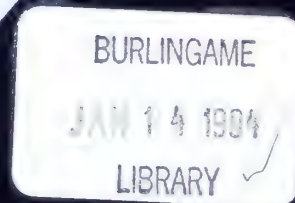
THE SECOND YEAR

**BILL CLINTON'S
ECONOMIC
SECURITY
AGENDA**

PAGE 68



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\$29,900*

The new C-Class may look but it doesn't look good for

Those of you in the market for a roomy, safe, quick, and reliable car will no doubt be pleased to know that the new C-Class is now available at your local Mercedes-Benz showroom.

Then again, those of you who work

at one of those other showrooms across the street may be less than enthusiastic.

Because, starting at \$29,900*, the C-Class is an incredible new Mercedes at an equally incredible price.

Take safety, for example. In addition

to the front and rear crumple zones, dual air bags, Emergency Tension Retractors for the front seat belts, four-wheel antilock disc brakes, the C-Class also has some innovative ways to help protect you in an accident.

*MSRP for a C 220 excludes \$475 transportation charge, all taxes, title/documentary fees, registration, tags, dealer prep charges, insurance, optional equipment. MSRP for a C 280 is \$34,900. Air bags are supplemental restraints. Please always wear your seat belt. ©1993 Mercedes-Benz of North America, Inc., Mont



good to you, the competition.

Nearly 1/4 of the body by weight is made of a special high-strength, low-alloy steel. A protective web of 96 ribs is strategically distributed over the entire structure of the C-Class, forming an extremely rigid safety cage.

State-of-the-art electronic controls and multivalve technology make the C 220's 4-cylinder engine and the C 280's 6-cylinder engine both efficient and powerful.

In both DOHC engines, an advanced

computer system coordinates critical functions like fuel/air mixture and valve timing, providing torque when you need it most: merging and passing.

Introducing a whole new class of cars from Mercedes-Benz.

The interior of the C-Class was designed with enough headroom for five 6'2" adults. (For anyone taller, there's always the standard sunroof.)

Once inside, you'll find standard features like an 8-speaker sound system, automatic climate control system, and orthopedically designed front seats that adjust in 10 different directions—on the driver's side, electrically.

To see the new C-Class for yourself, visit your local Mercedes-Benz dealer. Or, for more information on the new C-Class, call 1-800-964-6153.

You'll either find it extremely exciting. Or, if you happen to be the competition, slightly depressing.



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THE PRESIDENT MUST USE ALL HIS POLITICAL SKILLS TO DISPEL FEARS OF A VAST, EUROPEAN-STYLE SOCIAL WELFARE SYSTEM

Cover Story

68 THE SECOND YEAR

It's a new year with a new agenda in Washington: Economic security. After focusing on deficit reduction and NAFTA, the President now proposes to calm Americans' angst about jobs, pensions, crime, and health care by weaving a patchwork of programs into a warm security blanket. But will the Clinton Administration's solutions to deep-seated problems smother long-term growth with heavy-handed regulation?

74 ROBERT'S RULES OF REORDER

This year, Reich will prevail

78 COMMENTARY

Europe's tattered safety net

80 BUSINESS WEEK/HARRIS POLL

Are you listening, Mr. President?

Top of the News

32 JAPAN'S CARMAKERS REV UP

Comeback plans include cutting

34 GO SLOW? NOW THAT'S RADICAL

Westinghouse CEO Mike Jordan is abandoning his slash-and-burn plans

35 IN NEED OF MORE THAN TLC

There's management turmoil at TLC Beatrice just as it tries to go public

36 SARA LEE: WRONG RECIPE?

Its cost-cutting president is gone, and the company may be a bit stale

37 R.H. NEGATIVE

Depressing numbers for Macy's

37 OLD HARDWARE, NEW TRICKS

AT&T reinvents the telephone

40 COMMENTARY

Redstone's bid: Savvier than it looks

41 MANAGED CARE'S DISCONTENTS

Lawsuits charge restraint of trade

41 BARS, BYTES, AND BETS

NTN's interactive game goes wide

42 REEFER MADNESS AT HAVATAMPA

Pot smokers like Phillies Blunts

44 IN BUSINESS THIS WEEK

Baby Bells, Merry-Go-Round, a tough painkiller, Diet Coke, new face at the Fed, Sega's racy game

International Business

48 GERMANY

Why Heinz Schimmelbusch's plan for Metallgesellschaft didn't add up

49 GERMANY

Oil refiner Castle is shaken by Metallgesellschaft's risky strategy

52 EUROPE

EuroDisney may be headed for the Euro-trash heap

54 MEXICO

Salinas could soon be paying a steep price for social peace

59 INTERNATIONAL OUTLOOK

Now, for Clinton's next European trick...

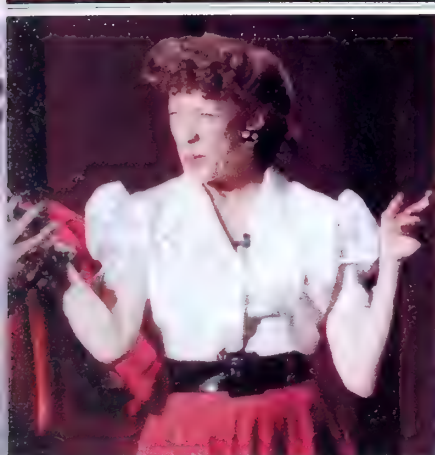
Economic Analysis

22 ECONOMIC VIEWPOINT

Roberts: The feds are pulling a bank-bias scam at Shawmut

26 ECONOMIC TRENDS

Capital goods, a message for bond traders, factory jobs and health care, hiring recent college grads



88 BEYOND RINGY-DINGY:
THE U.S. TELECOM INDUSTRY AGREES
ON THE PRINCIPLES OF THE DATA
HIGHWAY, BUT WASHINGTON MAY
HAVE TO HELP SORT OUT THE DETAILS



32 BUMPER TO BUMPER:
JAPAN'S CARMAKERS ARE OUT TO
REGAIN THE U.S. MARKET SHARE THEY
HAVE LOST. GIVEN DETROIT'S PRICE
ADVANTAGE, IT WON'T BE EASY



102 SPEAK SOFTLY AND WIN A BIG CHECK:
JOE BACHELDER'S AVUNCULAR
MANNER HAS HELPED HIM BECOME
THE AGENT OF CHOICE FOR CHIEF
EXECUTIVE COMPENSATION

29 BUSINESS OUTLOOK

The Reich rally may have some
room to run

Science & Technology

62 R&D, WITH A REALITY CHECK

Under boss Craig Fields, the
computer consortium MCC
has become results-oriented

66 DEVELOPMENTS TO WATCH

Virtual surgery, tiny testing tools,
mock Bach, supertough aluminum
ceramic, safer transfusions

Finance

82 STORM OVER EAST ASIA

The year is off to a grim start in
virtually all of its markets—but the
experts say it's just a blip

83 DRAGON ON THE TIGERS' TAIL

Merrill's Dragon Fund manager
buys "whenever I see weakness"

84 ILL-GOTTEN CAPITAL GAINS?

Because of what its prospectus
didn't say, Permanent Portfolio's
T-bill fund may face tax scrutiny

85 SONG TO SALOMON

As dust of the bid-rigging scandal
settles, ex-CEO Gutfreund claims the
firm owes him a cool \$40 million

85 CHASING A SHAKEOUT

Through a joint venture,
Chase Manhattan starts investing
in troubled insurers

86 INSIDE WALL STREET

What could get Comdisco dancing
Carnival's cruise isn't over
This grass looks greener

117 INVESTMENT FIGURES OF THE WEEK

Information Processing

88 INFO HIGHWAY PATROL

Yield signs? Well, everyone wants
part of the action, so everyone will
have to give up a little

92 THEY CAN'T WAIT TO SERVE YOU

Mainframe makers hope to cash in
on the digital multimedia market



94 BACK TO GERMANY THE HARD WAY:
U.S.-BORN JOHN NOBLE HAS REBUILT
HIS FAMILY'S CAMERA WORKS IN
DRESDEN. BUT FIRST, HE HAD TO PAY
AN AWFUL PRICE IN SIBERIA

People

94 TO HELL AND BACK

John Noble returned from the gulag
to resurrect a German factory

The Corporation

99 A CLEANUP AT WMX?

CEO Dean Buntrock has a revival
plan for the old Waste Management

102 HAS HE GOT A DEAL FOR THEM

Joe Bachelder, CEO pay negotiator

Personal Business

108 COMPENSATION: Options on options

TRAVEL: Deluxe room service

SMART MONEY: A vexing tax break

COLLECTIBLES: Space memorabilia

Features

6 UP FRONT

10 READERS REPORT

13 CORRECTIONS & CLARIFICATIONS

17 BOOKS

Albert: *Capitalism vs. Capitalism*

Calder: *Strategic Capitalism*

Sakakibara: *Beyond Capitalism*

Hampden-Turner and Trompenaars:

The Seven Cultures of Capitalism

115 BUSINESS WEEK INDEX

116 INDEX TO COMPANIES

118 EDITORIALS

Clinton's security gambit may work

A ramp to the information highway

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

LEGAL-UNEASE

AMEX AND THE SEARCH FOR JURISPLASTIC

American Express has long boasted about its prestigious clientele. Among some 34 million cardholders, enough, are a lot of federal judges. And that fact has clogged down class action brought



on behalf of AmEx customers that seeks heavy-duty fee refunds. Over the past 18 months, at least five jurists in Manhattan's U.S. District Court have disqualified themselves from hearing it. Finally, Judge Michael Mukasey emerged, albeit an American Express cardholder. Judge Michael Mukasey had to agree to waive his own rights to potential recoveries, plus those of his wife and two children. A judicial ethics committee advisory even sug-

gested that any card-carrying aunts, uncles, siblings, nieces, and nephews drop their rights, too.

Plaintiffs' attorneys charge that AmEx violated the Truth in Lending Act because it didn't tell customers its annual fee was negotiable if they complained or threatened to drop their card.

AmEx contends that it never negotiates fees. Judge Mukasey dismissed the suit in December, but an appeal was filed on Jan. 6.

So the judge jam continues—and intensifies. A three-judge panel must be found for the appeal. Plaintiffs' lawyer Bruce Coleman insists pressing the suit is worth the hassle, saying: "This is a very important issue." Tell it to the judge. *Linda Himelstein*

SUGGESTS

CASTING MICKEY AS THE VILLAIN

Francis Heidrich Sr. thinks his business partner, multinational Disney, is treating him with the cavalier disregard that Cinderella got from her stepisters. Heidrich, the head of a Central Florida cit-

TALK SHOW

The Superhighway? That sounds like a place that's long and boring and kills 50,000 people a year.

Talk-show host Dick Cavett at UCLA's Information Superhighway conference



CAPITAL GAINS: Ex Invesco manager Kaweske

FALLING AXES

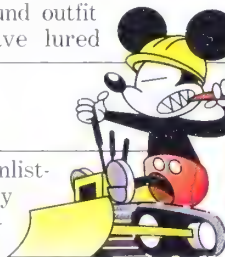
TAKE THE MONEY AND RUN?

There may be more than meets the eye about Invesco's recent firing of star mutual-fund manager John Kaweske, axed because he failed to report personal securities trades. Kaweske says the violations were technical. This much is certain: Invesco's action has hobbled his plan to start a rival fund outfit that could have lured

customers from Invesco. Last fall, Kaweske, 52, privately solicited \$1 million in start-up capital from friends. His next goal, according to a proposal for his Aspen Fund Group, was to raise \$500 million, "a sizable portion" transferred from Inves-

co by investors in the three funds he managed. That's 10% of Invesco's total assets.

Invesco's firing has touched off a Securities & Exchange Commission probe that may delay the startup for a year or more. Kaweske blames the mess on friction with his bosses. Denver-based Invesco won't discuss what, if anything, it knew about Aspen, saying good fund managers leave all the time. Invesco says the sole reason it canned him was he broke company rules. □



do, where Disney World created incredible growth when it opened in 1971.

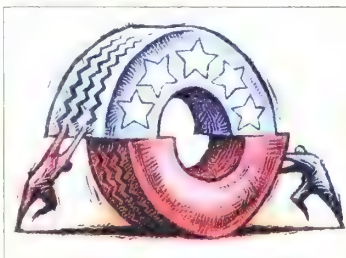
Then Heidrich saw Disney's blueprints: Magnolia Creek's mix is heavier on housing than he contends he asked for. Housing, he says, is an oversaturated market in the Orlando area. Disney delayed filing for government permits, Heidrich complains, and when it did, Disney used the plan he hadn't approved. According to Heidrich, the giant company simply recycled plans from the huge development it plans next door, called Celebration City. Heidrich complains about the "total lack of creativity." So he's suing Disney for \$68 million in damages.

Disney has a history of getting its way in the Orlando area, where it's the No.1 employer. It hasn't filed a legal response, but it dismisses Heidrich's suit as without merit. *Fernando Battaglia*

REALITY CHECK

JAPANESE OFFICIALS SAY a rising volume of cars imported from the U.S. shows that their market is opening up. America exported more than 36,000 cars to Japan between January and November, 1993, up from

30,000 in the year-before period. Sure, a lot of those cars were assembled in America by Japanese outfits. But Japan argues that these are the same as cars built in Big Three U.S. plants and shipped to Japan as exports.



IN REALITY, that's a lot of double-talk. Depending on whose figures you believe, between 25% and 55% of the value built into U.S.-assembled cars with Japanese nameplates was created outside America. Some arrived in the form of parts imported from Japan. Still more

came from component makers in the U.S. that are partly or wholly owned subsidiaries of Japanese companies. Removing Honda and Toyota cars leaves the Big Three exporting a meager 6,900 cars to Japan in 1993's first 11 months, down from 7,700 in the 1992 period.

It was designed on the assumption that your permanent teeth should be exactly that.

If the Oral-B Advantage™ Plaque Remover doesn't look like an ordinary toothbrush, there's good reason. It isn't.

Its goal is to help preserve your teeth for a lifetime. Therefore, it was designed to eliminate plaque and fight gum disease as effectively as possible.

The Advantage Plaque Remover offers

THE EXCELLENT PERFORMANCE OF THE ADVANTAGE PLAQUE REMOVER

is due to a unique bristle structure. It incorporates two specific Activity Zones.

THE POWER TIP™ bristles, at the anterior end of the brush, extend above the main bristle surface to remove plaque not only between teeth, but behind back teeth as well.

Power Tip

several highly innovative features. The ergonomically designed handle—with its thumb ridges and Universal Grip—enhances maneuvering and control to clean every tooth surface.

The oval head improves access to the rear portion of your mouth, where serious dental problems often start.

And the unprecedented bristle structure is a story unto itself.

In total, it took hundreds of design experiments to create the Advantage Plaque Remover. Dentists, scientists, technicians and engineers worked tirelessly in the quest to develop one of the finest home oral-care instruments in the world.

We urge you to test the result of

THE ACTION CUP™ with bristles cut to a precise 60-degree groove, conforms to tooth and gum contours, removing plaque from tooth surfaces and at the gumline. It features Indicator® bristles that fade as the brush wears out.

Together, these two structural innovations are designed to make the Oral-B Advantage Plaque Remover one of the most effective plaque-removal instruments you can buy.

Action Cup

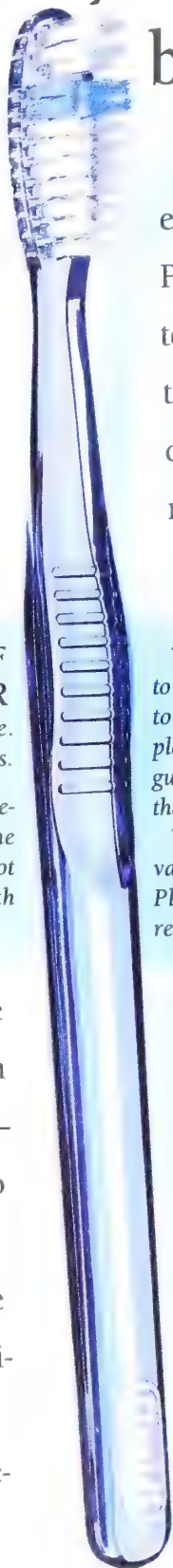
their efforts for yourself.

Look for the Advantage Plaque Remover wherever you find Oral-B. Like all our products, it's designed to work with you, your dentist and your hygienist to help you keep your teeth for life.



The Brand More Dentists Use.

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Introducing the Advantage™ Plaque Remover.

COORS' FIELD OF STIFLED DREAMS

Take heart, Geena and Madonna: The new all-female professional baseball team started by Coors Brewing and a little communications is being hyped as a woman's chance to break into the majors. The Colorado Silver Bullets will play minor-league teams, guided by Manager Phil Niekro, former Atlanta Braves great—and provide promotional value for Coors Light. There's only one problem: As with the 1940s women's ball clubs in the film *A League of Their Own*, the odds that a Silver



REEL LIFE: A long way from the bigs

Bullet can make the big time are slim to none.

To hear the Golden (Colo.)-based brewer tell it, the team will shatter sexist traditions. Although no formal ban exists on women players, and though female hopefuls have tried out for pro slots over the years, few if any have made it. Coors, which is backing the Silver Bullets with \$7 million, believes that a women's team will help. Says a Coors spokesman: "It makes good marketing sense, and we think it's good for the sport. Why not give [women] a chance?"

The effort to attract female beer drinkers may indeed be smart marketing. But there's a chuckhole in this field of dreams: The Silver Bullets will play teams in the Northern League, outside the majors' farm system. And the games will be only exhibitions. *Maria Mallory*

DEO VIOLENCE

MORTAL KOMBAT II: 'HE RIPS YOUR SKIN OFF'

Does Mortal Kombat turn your stomach and make you fear for our youth? Well, look out. Here comes Mortal Kombat II, the sequel to the wildly successful, wildly controversial video game that en-

ters the market in a home version by yearend for about \$80.

According to 17-year-old video-game aficionado Bryan Schuman of Ann Arbor, Mich., Mortal II outdoes the original with "more blood, greater use of razor-edge weapons, and a lot of new fatalities." For instance, bad guy Sub-Zero's newest trick: "He rips your skin off. You're just a bloody pile of muscle standing there."

Antiviolence crusaders aren't pleased. The home-video-game industry plans a ratings system to head off antiviolence legislation. But no such ratings are contemplated for video arcades. *Russ Mitchell*



SUB-ZERO WINS AGAIN: The gore gets gorier

encourages kids to tear off their enemies' heads and rip out their hearts. Introduced in arcades last month by Chicago-based creator Midway Manufacturing, Mortal II will likely hit

DRAWN AND QUARTERED



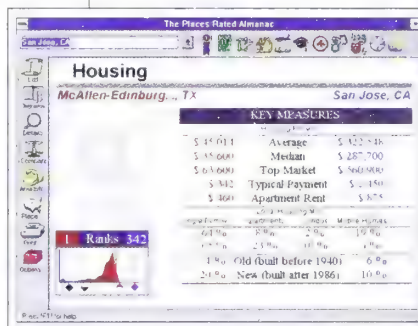
NESTING

SEARCHING ON-LINE FOR LIVABLE CITIES

The best place to live in North America, according to the *Places Rated Almanac*, is Cincinnati. And the worst is Yuba City, Calif. But what if you can't get a decent burrito in Cincinnati? Yuba City might be the right locale for you after all.

Now you can custom-tailor a search for the best home sweet home among 343 metropolitan areas. Authors David Savageau and Richard Boyer have developed software from their 13-year-old listing, letting you crunch the data for yourself—

putting emphasis on quality of schools, transportation, housing, or whatever turns you on. New York City, for instance, gets a bum rating for its high cost of living, but to gourmands, its great restaurants render Gotham an earthly paradise. The 3½-inch

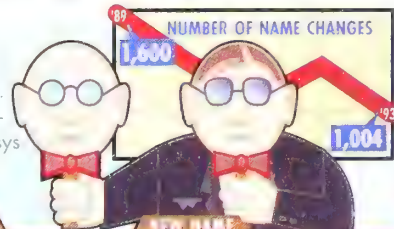


Savageau-Boyer disk costs \$34.95 (the *Places Rated Almanac* book, retailing for \$20, comes with the package). □

THE BIG PICTURE

WHAT'S IN A NAME?

Corporate name changes, much in vogue during the 1980s, are on a downswing. But companies still like manufactured names, such as Unisys or Ameritech, that don't tell you what a company does



OLD NAME	NEW NAME
CRUM & FORSTER	TALEGEN
GENERAL CINEMA	HARCOURT GENERAL
HUMANA INC.	GALEN HEALTH CARE
SUPERMARKETS GENERAL	PATHMARK
WASTE MANAGEMENT	WMX TECHNOLOGIES

DATA: ANSPACH-GROSSMAN PORTUGAL INC.

We don't just want you to clean your teeth.

We want to help you keep them.

At Oral-B, our purpose is to do everything we can to enhance the health of your teeth.

Accordingly, Oral-B Tooth and Gum Care Toothpaste is the only dentifrice formulated with stabilized stannous fluoride—the one form of fluoride clinically proven not only to fight cavities, but to fight

THE UNIQUE POWERS OF STANNOUS FLUORIDE have been demonstrated in numerous university studies. Using a patented technology, Oral-B envelops the stannous fluoride with a protective coating that releases it only when applied to the teeth through brushing.



Stannous Fluoride

plaque bacteria as well.

For decades, the dental profession has recognized stannous fluoride's unique value. In fact, dentists dispense more stannous-based home fluoride treatments than any other kind.

Now the laboratories of Oral-B have pioneered a technique of stabilizing stannous fluoride and incorporating it into the new Tooth and Gum Care formula. This breakthrough is so noteworthy

that it has been awarded two U.S. patents.

With Tooth and Gum Care Toothpaste, the same potent form of fluoride used in dental offices is now available to you between visits to your dentist.

And it is available in a remarkably pleasant-tasting form. Tooth and Gum Care is flavored with natural oils extracted from specially selected

Stannous fluoride blankets the teeth with a fluoride-rich complex that reduces the solubility of tooth enamel and helps prevent cavities.

Unlike other fluorides, it also releases a component that has been clinically proven to fight plaque bacteria.

Only Oral-B Tooth and Gum Care contains this powerful fluoride in a stabilized form.

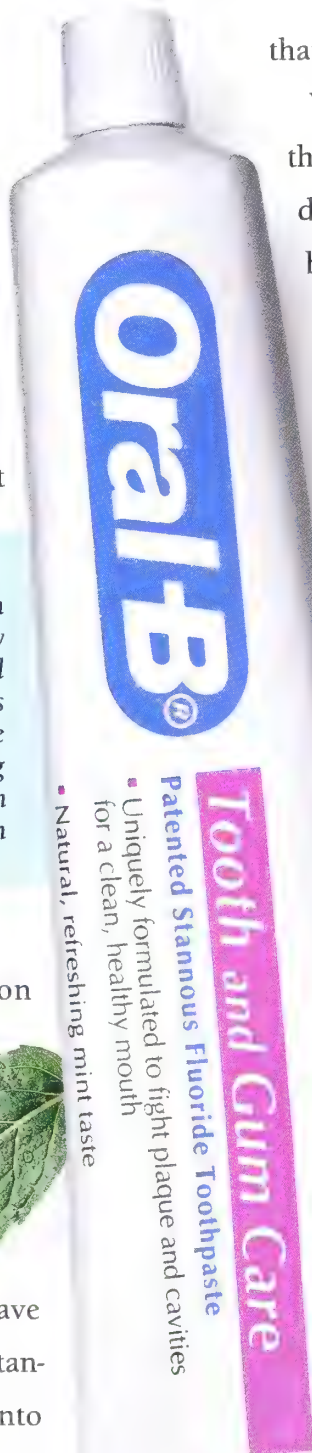
mint leaves—rather than the synthetic flavorings found in most toothpastes.

Look for Tooth and Gum Care wherever you find Oral-B. Like all our products, it's designed to work with you, your dentist and your hygienist to help you keep your teeth for life.



Keep Your Teeth For Life.

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• Natural, refreshing mint taste

• Uniquely formulated to fight plaque and cavities for a clean, healthy mouth

Patented Stannous Fluoride Toothpaste

Tooth and Gum Care

Introducing Tooth and Gum Care Toothpaste.

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DEFENDING BROKERS UNDER FIRE

As an attorney who specializes in representing investors in cases against brokerage firms, I agree with Michael Schroeder that "Wall Street should stop playing the bully" (Finance, Dec. 20). However, I disagree that non-attorney firms should be allowed to assist claimants.

Securities arbitration is not child's play, and proper representation of investors requires not only familiarity with the brokerage business but also a high level of legal sophistication. The non-attorney services are engaged in the unlawful practice of law, and are not governed by ethical rules, and are not subject to supervision by any regulatory body.

Investors who have suffered from mishandling of their accounts may have an equally unhappy experience if their legal rights are handled by amateurs.

David E. Shellenberger
 Boston

Your commentary represented an infectious distortion of the truth.

In an environment where, all too often, customers are taught to equate money lost with misconduct, revisions to the system are necessary to restrain frivolous and abusive claims.

Your commentary contends that the industry's proposals "amount to a more efficient shovel brigade for the elephant parade." But as long as the position of the media continues to perpetuate the notion that the customer is always the victim, the media will continue to be relegated to a role somewhere between the elephant and the shovel.

Steven Caruso
 Darien, Conn.

WHITE MEN HAVE NO MONOPOLY ON AMBITION AND TALENT

I just read the letter (Readers Report, Dec. 13) from Patrick Wiesner, who responded to Judith Dobrzynski's "The glass ceiling: A barrier to the boardroom, too," (Top of the News, Nov. 22).

The No.1 point that seems to have

completely slipped by Wiesner is, the men that he claims built Corporate America by "risking their financial stability and reputations" were the same white Anglo-Saxon men who created and lived by the laws that denied access to those coveted resources that built America. This was not just for women, but for male minorities, as well. I am 34 years old, yet even as recently as my childhood, oppression by blatant white male dominance was still a prevalent part of history. Blacks were "separate, but equal," and women were expected to stay at home and have children, measuring their success by that of their husbands. Even today, there are still signs of these inequalities. How were these two barriers going to provide opportunities that foster the building of companies by anyone other than white men?

The "character, ambition, and talent" that build corporations are not the sole possession of white men, and Wiesner, as well as others like him, will just have to face that fact.

Belinda Roberts
 Exeter, Calif.

FRANCE TELECOM IS ON THE BALL

The article "The Continent's wake-up call" (Information Processing, Dec. 20) was unjust in bashing European PTTs. It is true that for many years Europe's telephone monopolies were non-competitive and plagued by "lagging technologies, surly clerks, and high rates," as you stated. But this is no longer the case.

As an employee of France Telecom North America, I am pleased to see that market-driven changes are continually being implemented. We claim the most highly digitized network in the world in terms of backbone and switching equipment. The transatlantic demonstration of ATM [switches for multimedia data] presented by France Telecom on Oct. 27 at the Interop '93 trade show in Paris was the very first of its kind.

A recent public survey demonstrated a 91% satisfaction rate for France Telecom users in France. This would not

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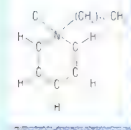
You want to keep your teeth for life.

We want to help.

If you're dedicated to keeping your teeth for life, you know the importance of removing the plaque bacteria brushing and flossing may leave behind. But even so, the performance of new Oral-B Anti-Plaque Rinse will surprise you.

Its active ingredient—Cetyl Pyridinium Chloride—has been clinically proven to kill 90% of plaque bacteria on contact.

TO KEEP YOUR TEETH HEALTHY FOR LIFE, it is essential that harmful plaque bacteria be controlled through regular brushing, flossing and rinsing. Cetyl Pyridinium Chloride (CPC) has been known to the dental profession for decades as an effective antibacterial agent.



Cetyl Pyridinium Chloride

The CPC compound chemically attaches itself to plaque bacteria and quickly kills them. It also attaches to tooth

Further studies have shown that it considerably reduces regrowth of plaque between brushings.

This is highly significant news to those who are striving to fight plaque in the interest of improved oral health. It strongly suggests that Oral-B Anti-Plaque Rinse should be an essential

part of your daily oral-care regimen.

But here is equally significant news: Its natural mint flavor, combined with special low-alcohol and alcohol-free formulations, makes Oral-B Anti-Plaque Rinse as pleasant as it is powerful. So if you've felt compelled to choose between a good-tasting rinse and an effective one, now you can have both.

surfaces, where it remains effective against bacteria for several hours.

Unlike most other rinses that use synthetic flavors, Oral-B Anti-Plaque Rinse combines CPC with natural oils extracted from specially selected mint leaves. It is therefore extremely pleasant to the taste.

Its unique combination of efficacy and taste makes Oral-B Anti-Plaque Rinse your most intelligent rinse alternative.



Natural mint leaf

Look for Oral-B Anti-Plaque Rinse—low-alcohol or alcohol-free—wherever you find Oral-B. Like all our products, it's designed to work with you, your dentist and your hygienist to help you keep your teeth for life.



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Prize Chart

1st Place	Mark VIII + \$2,000
2nd Place	\$1,500
3rd Place	\$1,250
4th Place	\$1,000
5th Place	\$900
6th Place	\$800
7th Place	\$700
8th Place	\$600
9th Place	\$500
10th Place	\$400
11th Place	\$350
12th Place	\$300
13th Place	\$250
14th Place	\$200
15th Place	\$100

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Readers Report

the case if we were not providing high quality, competitive services.

Martin Bischoff
Project Coordinator, Sales
France Telecom North America
New York

NOTED: A PARTRIDGE ARRIVES ON EACH OF THOSE 12 DAYS

Regarding the table, "On the first day of Christmas, your true love gave to me..." (Up Front, Dec. 20): During the Christmas season, for the better part of my adult life, I have been amazed that publications make the same error every year when they publish the cost related to "The Twelve Days of Christmas." I never felt obliged to write until my favorite, BUSINESS WEEK, fell victim.

Please note: Partridges in a pear tree were delivered on each of the 12 days; not once, as shown. Two turtle doves were delivered for 11 consecutive days; not once. And so forth. Thus, the actual cost is \$72,260, not \$15,761. I hope this may prevent some poor soul from acting on this carol with insufficient funds.

Joseph E.M. Ryan
Columbia, Md.

CORRECTIONS & CLARIFICATIONS

The "Investment Outlook Scoreboard" (Where to Invest in 1994, Dec. 27) showed a quarterly, not an annual, dividend for Allstate Insurance. The stock's annual investment yield is 2.4%.

CenterPoint Properties, mentioned in "A firm footing at last" (Where to Invest in 1994), concentrates on warehouse and industrial properties, not factory outlets.

QUALCOMM was erroneously mentioned in "Don't get trampled in the stampede" (Where to Invest in 1994) as an interactive media investment. The company develops and manufactures digital wireless-communications equipment, primarily for the trucking industry and for telephone services.

"The end of the end for 'Big Iron'" (Industry Outlook, Jan. 10) said that Power PC, Alpha, and Pentium chips are "an order of magnitude faster" than Intel's 80486 chip, suggesting they are some 10 times as fast. The new chips are about twice as fast as the 80486.

SO THE REPUBLICANS MUST HAVE CREATED JOBS AFTER ALL

In "At big companies, the heads are still rolling" (Economic Trends, Dec. 20), Gene Koretz states: "Despite... a net shrinkage of 147,000 jobs this year, [Human Resource Executive] reports that the top 50 employers have nevertheless added a net 460,000 jobs in the past six years." That means companies added 607,000 jobs during the last five years of Republican Administrations.

How can this be? Weren't we in a recession to rival the Great Depression? Clinton persuaded the press to create a perception of economic gloom in 1992, when optimism was warranted. As President, he has tried to paint an optimistic picture, but he may find he has created a monster—a press that has learned that gloom and doom prompt more people to buy magazines and newspapers.

Stuart Creque
Moraga, Calif.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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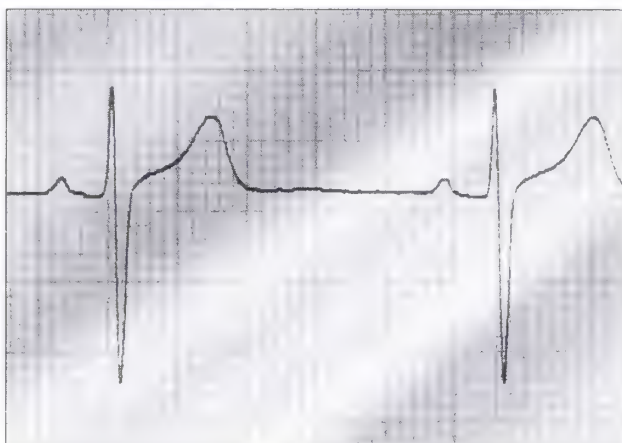


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CAPITALISM VS. CAPITALISM

By Michel Albert
Four Walls Eight Windows •
260pp • \$25.95

STRATEGIC CAPITALISM

By Kent E. Calder
Princeton • 373pp • \$35

BEYOND CAPITALISM

By Eisuke Sakakibara
University Press of America •
162pp • \$46.50/18.50 paper

THE SEVEN CULTURES OF CAPITALISM

By Charles Hampden-Turner and
Alfons Trompenaars
Doubleday • 405pp • \$25

THE MANY FACES OF FREE ENTERPRISE

Now that capitalism has triumphed over communism, more and more analysts are noticing that capitalism isn't a monolith—any more than communism was. And with their common enemy consigned to history, capitalist countries are starting to skirmish over the relative merits of their systems. Already, they're jockeying to sell their particular model to the emerging economies of Russia, Eastern Europe, Latin America, and Asia.

Reflecting this preoccupation, four new books set out to explain and compare capitalism's various forms, and in some cases, to advocate one. Taken together, they debunk the belief of many Americans that their form of capitalism is somehow the most legitimate and should be embraced by everyone.

Putting the debate in sharpest focus is Michel Albert's *Capitalism vs. Capitalism: How America's Obsession with Individual Achievement and Short-Term Profit Has Led it to the Brink of Collapse*. Albert, an economist, is president of Assurances Générales de France, his country's largest insurer. His book was published in French in 1991.

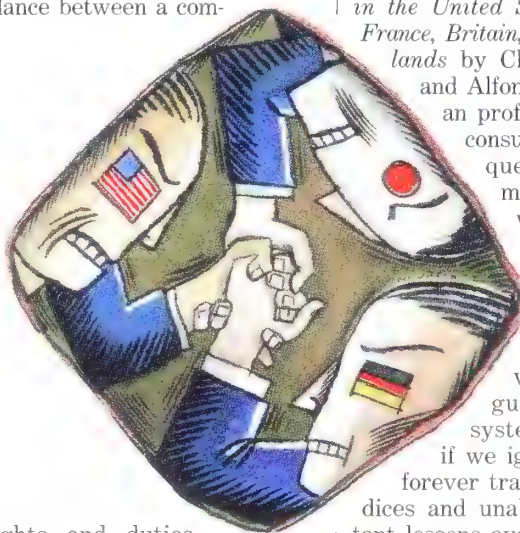
Albert's simple taxonomy of capitalism recognizes two species, one with a subspecies. And to Albert, it's clear that neo-American capitalism, as practiced in the U.S., Canada, Britain, Australia, and elsewhere, is inferior. Its managers are shortsighted, profit-mad, and grossly overpaid. Its "almost dictatorial" financial markets deny managers the patient capital needed to implement long-term strategy and divert their attention from running their businesses to protecting their backsides. "Shareholderings"—corporate raiders—treat companies and employees like "disposable merchandise."

Worse yet, to Albert, is the blind pursuit of profit. How curious, he writes, "to discover that America—capitalism's adopted homeland—should now provide a

new object lesson...namely, that profit can also weaken free enterprise; it can be damaging to the economy; it can hinder development." To his dismay, Albert thinks greed is driving most of the world toward this form.

In stark contrast, Albert extols the "Rhine model" exemplified by Germany and, in modified form, by Japan. He sees this breed of capitalism, also practiced in Sweden, the Netherlands, and Switzerland, as kinder, gentler, yet "more efficient." In Albert's view, it offers the proper balance between a com-

Countries are jockeying to sell their brand of capitalism—a race four books examine



pany's rights and duties.

As a "social market economy," the Rhine model provides workers with greater security than the neo-American form, Albert says, and views companies "not just as a heap of capital but as a group of people." Corporate funding comes more from banks than from securities markets, which means more patient capital. Trade unions are reasonable. Stable home markets let companies compete more easily abroad. Germany offers the shortest workweek and best pay in the capitalist world.

How quickly times change! Since Albert wrote his book, German competitiveness has seriously deteriorated, thanks to these perks and a strong mark. Germany is now the world's highest-cost producer of many items. Since 1991, German interest rates have risen, and Japan's economy has lost steam, while the U.S. is on the rise.

Capitalism vs. Capitalism is further marred by the French predilection to trash the U.S. Albert rails against France's "Americanization," as evidenced by new ostentation among the wealthy and the triumph of individualism over communitarianism. At the same time, he gives Japan's fascinating economic model short shrift. Still, for easy, provocative reading, his book is worth a look.

More evenhanded but also more ponderous is *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Japan, Germany, France, Britain, Sweden, and the Netherlands* by Charles Hampden-Turner and Alfons Trompenaars, European professors and management consultants. By administering questionnaires to 15,000 managers around the world, the authors have identified a set of value differences that distinguish practitioners of capitalism in numerous lands. These diverging values, they argue, lead to different systems and behavior. And if we ignore them, "we will be forever trapped by our own prejudices and unable to learn the important lessons available through calm observation of our competition."

A typical insight is the authors' conclusion that the American and British tendencies to codify, or spell out rules, and to reduce everything to basics are at once strengths and weaknesses. On the plus side, the former trait led to firm, clear economic guidelines that helped draw entrepreneurial immigrants, while the latter helped the U.S. excel in the Machine Age. But codification, the authors argue, leads to dominance by easily quantifiable fields, such as finance, law, and economics, to the detriment of areas such as human resources, creativity, customer relations, and quality.

The authors' survey questions are clever and turn up fascinating insights. An example: "One of your subordinates, whom you know has trouble at home, is frequently coming in significantly late. What right has this colleague to be pro-

ected by you from others in the department?" Of U.S. respondents, 95% said "no right," compared with 43% from France and 56% from Japan.

Kent E. Calder, director of Princeton University's Program on U.S.-Japan Relations, is striving to replace Chalmers A. Johnson, recently retired from the University of California at San Diego, as America's premier scholar of Japan's political economy. In *Strategic Capitalism: Private Business and Public Purposes in Japanese Industrial Finance*, he challenges Johnson's depiction of Japan as a supremely successful government-command form of capitalism. Japan's private sector, he asserts, has been more independent and self-starting than the Johnson school would allow.

Dense but readable for an academic work, *Strategic Capitalism* is magnificently researched. Calder, however, fails to analyze adequately the remarkably intimate but subtle interconnections between government and business in Japan. He shows that key private financial institutions did more than government money to fund Japan's industrial resurgence. But he underestimates the influence government had through such practices as *amakudari*, or "descents from

heaven"—the flow of powerful retired bureaucrats into these institutions—and the attention the private sector paid to "guidance" from the bureaucracy. As his subtitle suggests, private business contributes to public purpose in Japan.

On that score, Calder fails to distance himself from Johnson, though his analysis is more nuanced and adds important detail about the role of the private sec-

Calder challenges the view that Japan has a supremely successful government-command form of capitalism

tor. For anyone seriously interested in the form and practice of Japanese capitalism, this is an important contribution.

Beyond Capitalism: The Japanese Model of Market Economics, co-published by Japan critic Clyde V. Prestowitz Jr.'s Economic Strategy Institute, is the work of Eisuke Sakakibara, a senior Finance Ministry official who is one of Japan's most outspoken bureaucrats and a

proponent of Japanese-style capitalism.

His book delivers less than its provocative title promises. In an analysis reminiscent of Albert's, Sakakibara calls Japanese capitalism "peoplism." This "is given concrete expression in the form of employee sovereignty within the corporation, and an independent, land-owning farmer within agriculture," he writes. "This principle is clearly different from the ideological foundations of Western capitalism...."

Sakakibara offers many such sweeping statements, but he is weak on documentation and cogent analysis. Still, this is a rare English-language peep into the perceptions of a leading Japanese bureaucrat and valuable simply for that.

That four such books by authors from five nations would appear almost simultaneously in English suggests that the debate about capitalisms won't quickly die down. If you want to participate intelligently, you'll probably be best served by *The Seven Cultures of Capitalism*, the most comprehensive. To get your combative juices flowing, however, Albert's polemic would be the choice.

BY ROBERT NEFF

Neff heads *BUSINESS WEEK's* Tokyo bureau.

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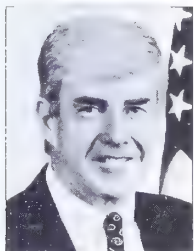
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Illustration by Robert Neubecker. As seen in BusinessWeek, August 9, 1993 issue.



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THE FEDS' SHAM SETTLEMENT WITH SHAWMUT

BY PAUL CRAIG ROBERTS



The lawsuit was based on a statistical model "proving" loan discrimination. Now, the Justice-Shawmut team must find 75 to 100 people to share the cash. That's like convicting someone of murder and then searching for a body

The Justice Dept., Federal Reserve, and Federal Trade Commission have just extorted \$1 million from Shawmut Mortgage Co., a subsidiary of Shawmut National Corp. in Hartford, and all concerned are happy, including the chairman of the bank and the Wall Street analysts who follow it.

Ostensibly, the money was paid to settle a discrimination suit in mortgage lending, but in reality, it was a bribe paid so that the Fed would remove barriers it had erected to the bank's acquisition plans. The settlement clears the way for Shawmut to reapply to regulators for the acquisitions it seeks. Federal Reserve Governor Lawrence B. Lindsey, who organized the hit on Shawmut, says: "I've always thought that Shawmut wasn't damned for all eternity. If they reapply, the wheel doesn't have to be reinvented."

The \$1 million meant little to the bank and wasn't the real price of the agreement. In order to move ahead with its growth plans, Shawmut had to agree to participate in a sham that would increase the government's powers of intimidation over financial institutions. The bank had to agree to "settle" a discrimination suit that had no individual complainants. The basis of the suit was a computer model that finds discrimination in statistical disparities.

The absence of real victims has led to the formation of a Justice-Shawmut team to search out 75 to 150 people to designate as "mortgage-discrimination victims," who will share the settlement cash. It's like convicting a person of murder and then searching for a body. **PACKAGE DEAL.** The consent decree itself is a dead giveaway that the affair is a sham. Its first sentence reads: "The U.S. files this Consent Decree simultaneously with its Complaint against the Shawmut Mortgage Co." In other words, the complaint and the consent decree were a negotiated package. There is no evidence in the complaint of any wrongdoing. Indeed, between 1990 and 1992, when the alleged discrimination occurred, the mortgages Shawmut granted to minorities doubled, from 274 to 599, and the mortgage-rejection rate fell by 28% for African Americans and by 38% for Hispanics. Moreover, the bank had in place a program that aggressively sought mortgage business from low-income applicants and gave its loan officers broad discretion to approve applications on the basis of "compensating" criteria when normal requirements couldn't be met.

Obviously, the bank was leaning over backwards to make loans to people who are not normally seen as good credit risks, and a mean-spirited federal government took advantage

of this generosity. In such a lending situation, some loan officers will decide to further their careers by pushing out as many loans as possible; others, more risk-averse, will worry about too many defaulted loans coming back to haunt them and will not push the "compensating" criteria to the same boundaries. The government found discrimination in this program that was benefiting minorities, because the bank had no internal-review mechanism to make certain that each loan officer provided every less-qualified applicant with an identical amount of "compensating" criteria.

HOCUS-POCUS? There are only two remaining pools of private wealth that the government doesn't have its hooks into—pensions and the assets of the banking system. The political left, disproportionately represented in the Clinton Administration, has both in its cross hairs. Shawmut's consent to the phony charge was essential to establish the credibility of the government's claim that its model is a reliable ferret of racial discrimination. "Learn from Shawmut's experience," Attorney General Janet Reno warned banks. "Do not wait for the Justice Dept. to come knocking" before pouring taxpayer-insured deposits and shareholders' equity into high-risk inner-city loans. To underline the message, Justice now is turning the statistical-disparities weapon against Chicago's Northern Trust Corp.

Many distinguished economists, including Gary S. Becker in this column (BW-Apr. 19), have noted that statistical disparities have many explanations other than racial discrimination. If mortgage lenders were discriminating, minority loans would have lower default rates than loans to whites. Lower default rates would be a sign that stricter standards apply to minorities. In turn, that would mean that loans made to minorities would be more profitable than those made to whites.

But neither the Fed nor Justice has produced evidence that minority mortgage loans have lower default rates. Instead, we have the paradox of a well-known market economist, Larry Lindsey, arguing that competition in the market stops short of equalizing default rates and that lenders forgo profits in order to make less-profitable loans to whites. No economist will credit this claim, which flies in the face of a fundamental tenet of economic analysis—and certainly not without highly credible evidence.

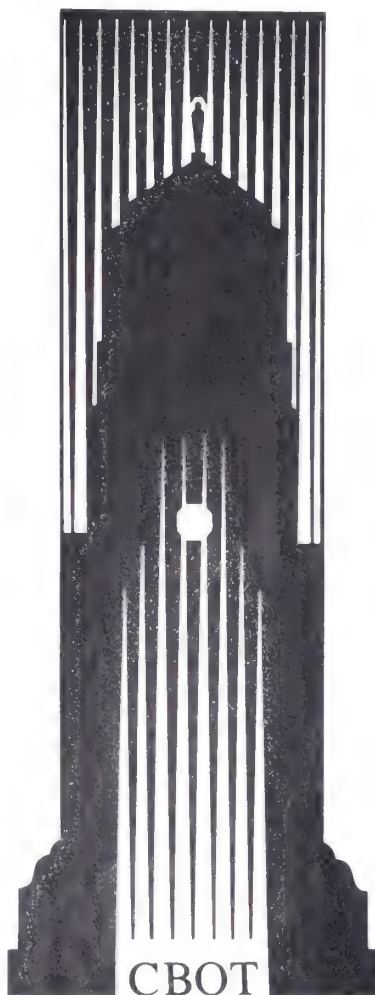
In trying to appease its left-wing critics, the Fed is playing a risky game. By compromising its integrity, it will find itself without friends when its many enemies turn up the heat.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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BY GENE KORETZ

THE CAPITAL-GOODS TRADE SURPLUS IS SHRINKING FAST

One of the distinctive features of the current expansion has been the unusually strong role of equipment investment, which has accounted for roughly half of the economy's growth since the recovery began. But although capital-spending plans remain robust, economist Bruce Kasman at Morgan Stanley & Co. warns that two trends could upset the investment apple cart and slow economic growth: the sharp decline in capital investment in other industrial nations and the fast-rising import share of U.S. equipment purchases.

In the normal pattern, upswings in capital expenditures in the U.S. tend

to slow capital spending rather than stimulate it.

This spells big problems for America's lagging trade balance. Capital goods now account for some 40% of U.S. merchandise exports, of which more than half normally go to other industrial nations. At the same time, foreign-made equipment, which now accounts for 25% of U.S. imports, continues to make sharp inroads in U.S. capital-goods markets. Even as the dollar declined, the import share of domestic nonautomotive equipment spending has climbed from 30% in 1986 to some 50% today.

Thus, plummeting capital investment abroad is restraining U.S. exports at the same time that surging capital spending at home is sucking in imports. In fact, notes Kasman, "roughly half of the \$60 billion widening of the U.S. trade deficit since the end of 1991 can be traced to the dramatic decline in America's surplus in capital-goods trade." In short, in a world in which capital spending overseas is inhibited, a U.S. investment boom can be a mixed blessing.

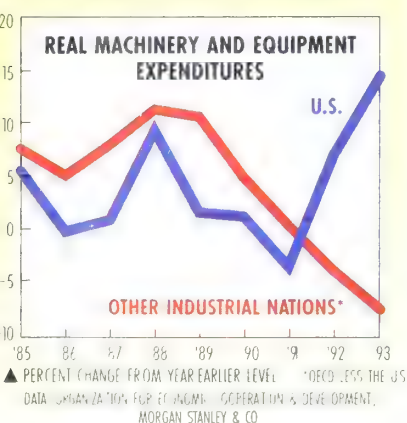
tive, it's hardly a surprise that the market rally touched off by the relatively modest employment rise reported in early January seems to be continuing.

WHY FACTORY JOBS ARE SCARCE: RISING HEALTH-CARE COSTS?

Demand may be surging, but U.S. manufacturers play it close to the vest where jobs are concerned. Instead of boosting hiring, they stretched their workweek in November and December to 41.7 hours—the longest since World War II. Economist David Hale at Kemper Financial Cos. estimates there would be 250,000 more manufacturing jobs today if the factory workweek had remained at 41.2 hours, its record level during the long expansion of the 1980s.

One possible reason for the hiring dearth, speculates Hale, may be fears that coming government-mandated benefits, particularly health care, will raise labor costs. "Ironically," he says, "while Europe is weighing a four-day workweek to cushion the effects of its expensive social insurance policies on employment, American industry is moving toward a de facto six-day workweek because of concerns that the Clinton Administration will introduce such European-style policies in the U.S."

INVESTMENT: BOOM IN THE U.S., BUST OVERSEAS



to spread quickly throughout the industrial world, producing synchronous investment cycles. This time around, though, capital spending in other advanced economies has stayed weak, contracting at close to a 5% annual rate since 1991. What's more, a significant pickup is probably years away.

For one thing, both Japan and Europe are still trying to deal with huge overhangs of excess capacity created by major investment booms a few years ago, when Japan's bubble economy and the prospect of European unity inspired wholly unrealistic sales expectations. For another, industrial economies overseas are only in the first stages of the kind of cost-cutting and downsizing that turned American industry lean and mean over the past decade. Until it is well advanced, the process of restructuring to meet intensified global competition tends

EMPLOYMENT FIGURES MAY HAVE A MESSAGE FOR BOND TRADERS

When the bond market reacts to the government's monthly employment reports, does it fully reflect the information they contain? Not according to a recent Salomon Brothers Inc. study, which spies a profit opportunity in the market's gyrations.

In a trading simulation based on price data over the past six years, Salomon researchers Alexander Saitta and Chia-Yu Chang used the closing price of the Treasury bond on the days of the employment report to initiate positions in T-bond futures. If the bond price closed higher than the previous close, they bought a futures contract at the new closing price. If it closed lower, they sold futures short. In either case, the position was held until the end of the last business day of the month.

The study indicated that this trading strategy would have produced a profit 58% of the time. The average profit per monthly trade over the six years came to \$554, and total cumulative gains grew to \$39,905—a statistically significant result. In sum, the bond market's move in the wake of the employment release often foreshadows the direction over the rest of the month—presumably, says Chang, because subsequent economic data tend to confirm the employment report's message. From this perspec-

NEW COLLEGE GRADS FIND BUSINESS A BIT FRIENDLIER

Despite manufacturers' cautious attitudes, there's finally some good news for new college grads. For the first time in five years, Michigan State University's Collegiate Employment Research Institute reports that its annual nationwide survey of employers shows a rise in hiring intentions. While the pickup in the current 1993-94 academic year is a mere 1.1%, it follows a cumulative decline of 35% over four years.

Overall, the outlook is decidedly mixed. The auto industry, banking and finance, hotels, and aerospace all plan to boost hiring by at least 25%, but hiring by government and many other industries remains depressed. Starting salaries, projected to rise a modest 0.4% to 1.6%, continue to decline in real terms. The dollar range for bachelor's degree grads runs from a low of \$20,500 for journalism majors to a high of \$40,341 for chemical engineers. For MBAs, the average starting salary is projected at \$37,530.

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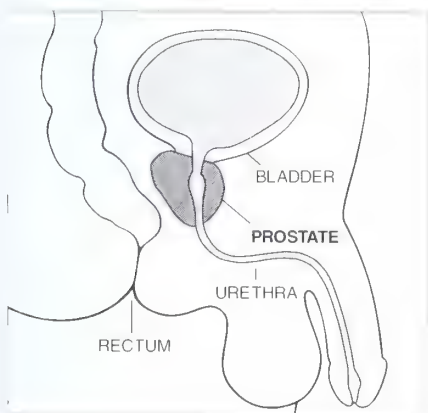
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PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

• **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.

• **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.

• **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

• Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.

• You may need to take PROSCAR for six (6) months or more to see whether it helps you.

• Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

• **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.

• **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR[®] (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

• A warning about PROSCAR and pregnancy.

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

• **Sexual contact.** Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

• **Handling broken tablets.** Women who are pregnant or who could become pregnant must **not handle broken** tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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THE REICH RALLY MAY HAVE SOME ROOM TO RUN

Don't be surprised if you see Robert B. Reich on Feb. 3 with his mouth taped shut. That's the day before January's employment report is released.

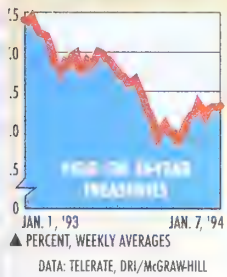
The Labor Secretary's very accurate "educated guess" that December payrolls rose in the range of 160,000 to 200,000, blabbed a day before the official report on Jan. 7, sent bond-market players scurrying to cover positions taken on the expectation of a much larger gain. His remarks about one of the most market-sensitive pieces of government data had Wall Street wanting his head.

In retrospect, Reich's impropriety may have touched off a rally in the bond market that could have some running room. The yield on 30-year Treasury bonds dipped from 6.40% on Jan. 5 to 6.34% on Jan. 6—after Reich's "forecast"—and to 6.22% the next day, after the news that payrolls rose by only 183,000 in December. That increase was below the 215,000 average expectation and well under the 250,000-or-more gain that several analysts had their trading floors bracing for.

LINGERING FEARS OF A HIKE IN RATES

What's more important than Reich's *faux pas*, however, is what the December employment report says about economic growth and inflation. Currently, bond prices almost completely reflect the very strong fourth-quarter growth in real gross domestic product, to be reported on Jan. 28. The job numbers don't dispute that.

ARE BONDS READY FOR A RALLY?



The job data, however, allay some of the bond market's worries that stronger numbers would have fueled. The December report is consistent with the economy's current underlying growth rate of about 3%. It suggests that, after robust showing for fourth-quarter GDP, expected to be in the range of 4% to 5%, first-quarter growth will slow to a more moderate pace. If so, the bond market may allow long-term rates to drift lower.

The latest inflation signals from the producer price in-

dex only reinforce the message from the employment report. The PPI for finished goods fell 0.1% in December, pulled down by a 3.5% drop in energy prices. Excluding energy and food, the core PPI rose 0.2%. In response to the news, bond yields fell further, to 6.18%, on Jan. 12.

Cheaper energy reflects the drop in crude-oil prices from \$19 a barrel in October to less than \$15 in mid-January. And given that OPEC cannot coax noncartel countries to cut output, and given the reports that OPEC will not hold an emergency session before the next scheduled meeting, in March, oil prices are likely to stay down.

For the year, producer-price inflation ended up a mere 0.4%, measured from December, 1992, with core inflation at only 0.3%. Further back in the production process, commodity prices are rising, as would be expected, considering the pickup in manufacturing and housing. But the rise has not been steep enough to suggest inflationary pressures are building under finished-goods prices.

FACTORY PAYROLLS STOP SHRINKING

Another good sign for inflation: The December employment report reflected the apparent continuation of better productivity growth. That pattern was especially evident in manufacturing, where employment rose a scant 2,000, while the factory workweek held at a record 41.7 hours. During the past year, factory output has risen by more than 5%, while jobs have fallen by 1%.

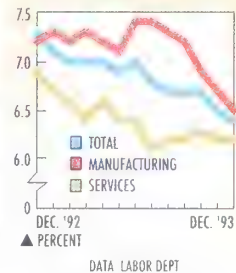
Still, manufacturers will likely add jobs in 1994. The National Association of Manufacturers forecasts 200,000 more slots this year, although some members are less optimistic. The December gain in factory employment was slim, but it did mark the third rise in a row, the first such string in five years.

As was true through most of 1993, nearly all of the new December jobs were in the service sector. Service payrolls rose by 173,000, led by gains in restaurants, temporary-help services, health care, and finance.

Despite the growth in service employment, the jobless rate in services, at 6.2% in December, remains little changed from six months ago (chart). The reason is that most unemployed people are searching in the service sector, where chances of landing a job are better.

In addition, the Labor Dept.'s attempt to remove the

WHAT'S PUSHING DOWN JOBLESSNESS



Business Outlook

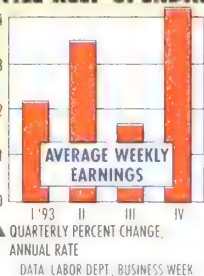
ender bias in its survey methods may already be causing some updrift in service unemployment, where such bias is expected to be the greatest. The new procedures, which are expected to lift total joblessness by about 0.4%, will be fully incorporated into the January survey.

SHOPPERS USE BOTH CASH AND CREDIT

The upshot: The bond market, in its never-ending search for price pressures, found none in the December employment report. Of course, it is always casting for cues. The worry is that a repeat of the fourth quarter's pricing surge would make price increases easier to pass along. And bigger wage gains mean higher costs.

As the job data imply, however, this economy no longer reacts in such straightforward ways. Demand is picking up, but the economy is still growing at less than its potential. Productivity gains are covering most of the pay raises, so wage gains need not be inflationary.

WHY CONSUMERS WILL KEEP SPENDING



Advantage in personal income last month.

For the quarter, weekly paychecks grew at a 4.2% annual rate—the fastest quarterly clip in 2½ years (chart). Leading into 1994, that extra pay means consumer spending will not falter this quarter. In fact, the *Johnson Redbook Report* said sales at discount and department stores in the first week of January were up 5% from their December average.

THE WEEK AHEAD

MERCHANDISE TRADE DEFICIT

Wednesday, Jan. 19, 8:30 a.m.

The foreign trade deficit in November was probably little changed from its \$0.5 billion level in October. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Both imports and exports have risen for three consecutive months, and most economists expect small declines on each side of the trade ledger in November. As a result, the trade deficit is far in the fourth quarter is not much different from its third-quarter average. The U.S., however, should continue to grow faster than most other industrialized countries during the first half of

1994, so imports will start to increase faster than exports once again. That means the foreign-trade sector will be a drag on U.S. economic growth for part of this year.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Jan. 20, 8:30 a.m.

New filings for state unemployment benefits likely stood at 325,000 in the week ended Jan. 15. Claims surged to 363,000 in the last week of 1993, but they had fallen to 293,000 in the week that included the Christmas holiday. On a four-week moving average, claims have stabilized at around 330,000. That pace, though, is much higher than in previous expansions and reflects the continued

In addition to having more money in their wallets, households are also tapping into credit lines again, and that should help to lift spending further. Installment credit jumped by \$6.9 billion in November, on top of a \$7.7 billion surge in October (chart).

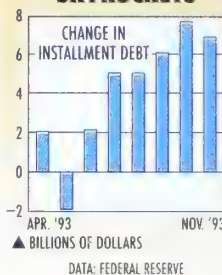
The borrowing binge continued in December. MasterCard International Inc. says that use of its credit cards soared 23.6% during the holiday shopping season, compared with the 1992 period. The biggest weekly rise came in the last-minute rush before Christmas.

Increased use of credit is in line with the recent splurge on durable goods, because big-ticket items such as cars, refrigerators, and dining-room sets tend to be financed. The strong rise in weekly pay suggests households had the cash to buy many of these goods. But credit-card incentives such as frequent-flier miles and the 0% financing offered by some retailers probably contributed to making plastic a better deal.

Consumers are adding as much to their installment debt now as they did in the mid-1980s. But there's a big difference: Unlike the '80s, today's borrowings are not outpacing income. Installment debt as a percentage of disposable income stood at 16.3% in November, the same ratio as at the beginning of 1993. Moreover, bankruptcies and loan delinquencies are down, suggesting that fewer households are under financial duress.

Certainly, last year's plunge in long rates helped to nourish consumer budgets, especially through mortgage refinancings. And low rates provide a boost to capital spending and housing, which pave the way for further job gains. That's why the economy would benefit from a continuation of the Reich rally—whether or not the Labor Secretary makes any more forecasts.

CREDIT USE SKYROCKETS

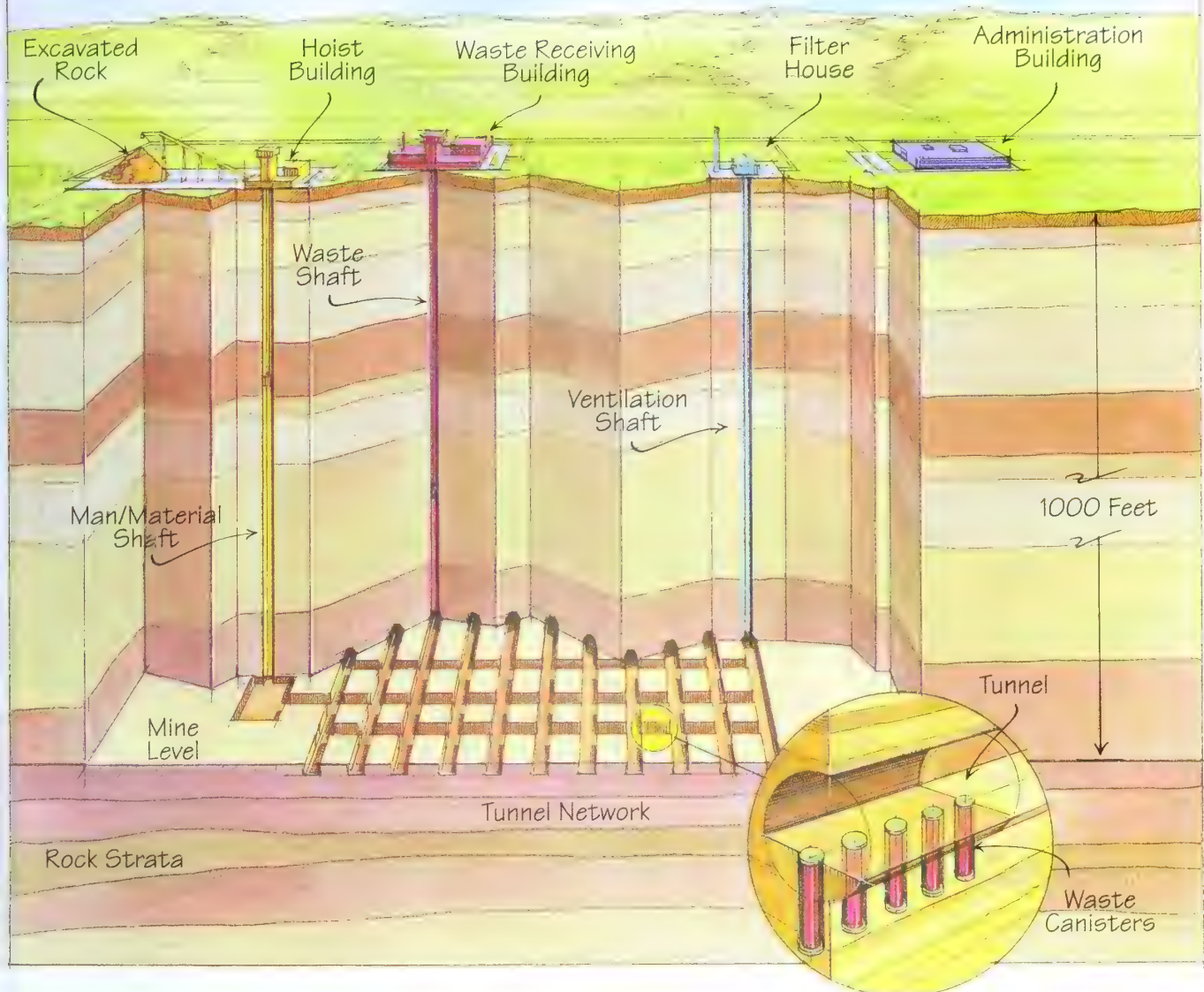


downsizing by some companies even as others start to add workers.

HOUSING STARTS

Thursday, Jan. 20, 8:30 a.m.

The MMS economists expect that builders lost little momentum last month. Housing starts had jumped by 3.9% in November, to an annual rate of 1.43 million, and the forecasters project that December starts fell back only a bit, to a still-high 1.42 million pace. The 11.3% surge in new-home sales in November means that developers have fewer houses to sell. And the recent backup in mortgage rates suggests that prospective buyers are entering the housing market before rates get too high.



TO MOST PEOPLE, IT'S A COMPLEX DIAGRAM. TO SCIENTISTS, IT'S A CLEAR PICTURE OF SAFE NUCLEAR WASTE DISPOSAL.

More than 30 years of scientific study have confirmed how to safely, permanently dispose of high-level nuclear waste (the used fuel from nuclear electric plants): isolate it geologically.

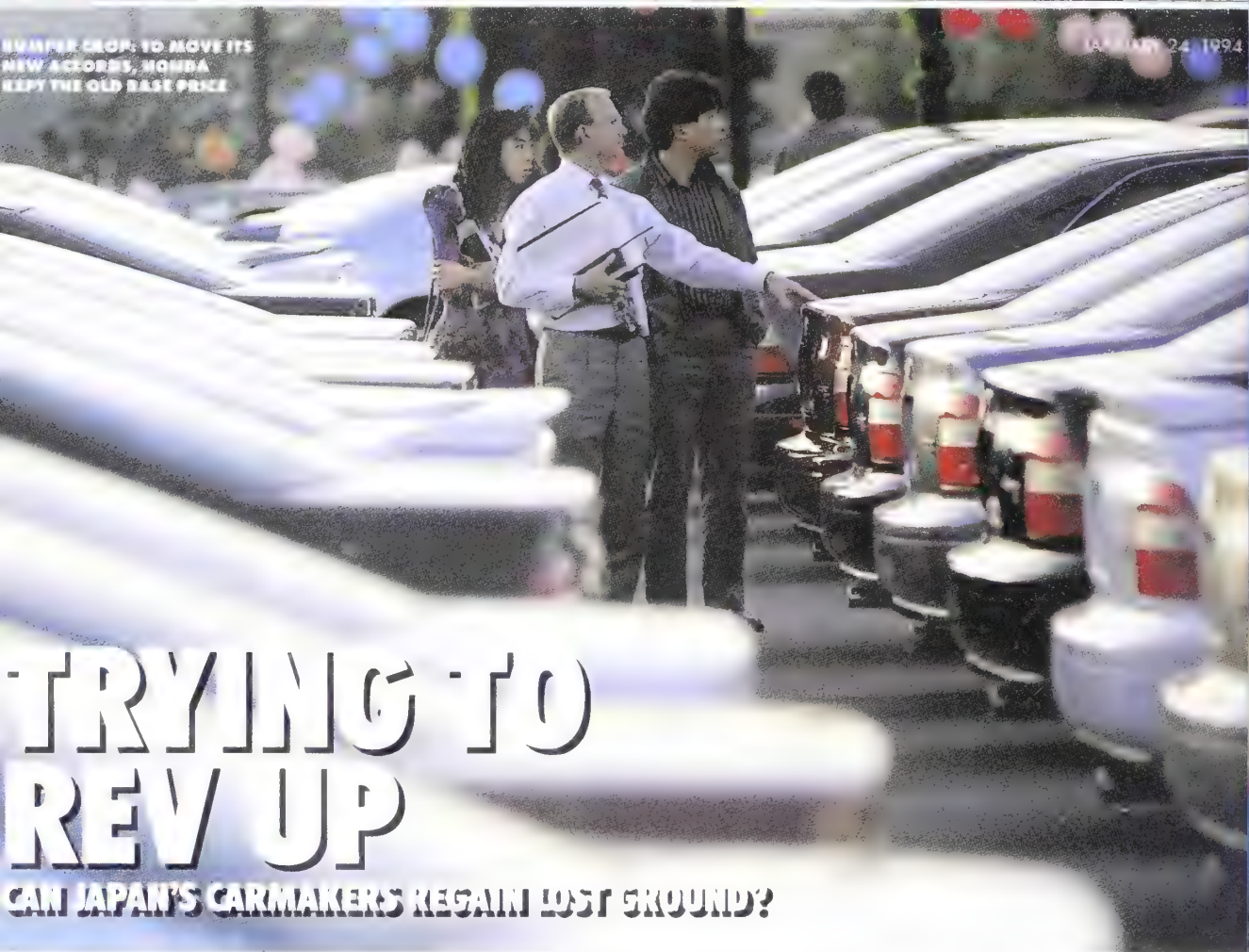
The used nuclear fuel, in the form of ceramic pellets, would be sealed inside layers of steel; put in carefully engineered structures at least 1,000 feet underground, within dry rock formations that have a long history of geologic stability; and monitored closely. According to the National Academy of

Sciences, "There is a strong worldwide consensus that the best, safest long-term option for dealing with high-level waste is geologic isolation."

Also agreeing on the safety and feasibility of this solution are the Environmental Protection Agency and the American Physical Society. For more information on the safe disposal of high-level waste, please write to the U.S. Council for Energy Awareness, P.O. Box 66080, Dept. D, Washington, D.C. 20035.

WINTER DROP: TO MOVE ITS NEW ACCORDS, HONDA KEPT THE OLD BASE PRICE

JANUARY 24, 1994



TRYING TO REV UP

CAN JAPAN'S CARMAKERS REGAIN LOST GROUND?

Talk about role reversal. After years of taking it on the chin, Detroit's Big Three auto makers are continuing to surge against their Japanese rivals. And the Japanese? In 1993, for the second straight year, their share of the U.S. market for cars and light trucks fell—this time to 23.2%, off 2.6 points since 1991. Now, Wall Street is betting that Detroit will continue to boom. Even a strike at a GM truck plant in Louisiana that started on Jan. 11 couldn't dampen GM's stock price. The next day, GM closed at 59%, up 8% since Dec. 31. Chrysler has soared 10.8%, to 61%, and Ford is up 4.7%, to 67%, in the same period.

Why the rampant optimism among such practiced pessimists? There's one big reason: It looks as if Detroit could win even more U.S. sales from its weakened rivals. Beleaguered by the strong economy and deep slumps in the Japanese and European auto markets, Japan's car companies are sounding ever more content to back off the market-share race. Executives admit they could well be

forced to keep raising U.S. prices to bolster profits—allowing Detroit to widen its gaping price lead (chart). "We'll still have to increase our prices again if the exchange rate stays where it is," says Motosuke Tominaga, a Toyota director in Tokyo, even though "we may lose market share" by doing so. At Honda these days, adds Executive Vice-President Yoshihide Mune-kuni: "Gaining market share is not important."

LEASING'S EDGE. Indeed, only one Japanese auto maker—Nissan—gained market share last year. By contrast, Honda's U.S. sales fell 6.8%, and its share dropped 0.8 points, to 5.2%. Toyota's share dropped a half-point, to 7.5%. This year and next, researcher AutoPacific Inc. predicts, Japanese carmakers' collective share will continue to hover around 23%.

Still, no one is counting the Japanese out. Last year, they began aggressively pushing attractive leases on top-selling models, such as the Honda Accord and Toyota Camry, pushing monthly payments down to not much

more than \$200 in some cases. On top of that, all the companies are furiously paring back costs and shifting more production from high-cost Japan to the U.S. And most of them are planning moves—albeit gingerly—into the market where they are weakest: hot-selling trucks such as minivans, sport-utility vehicles, and pickups.

For 1994, the major question is whether leases by themselves will be enough to jump-start Japan's performance. Using a sales-weighted average, Detroit's cars typically will cost \$1,700 less than Japan's this year, figures AutoPacific. Comparing base prices, others put the gap as high as \$3,100. But leasing "almost completely erases the price advantage of the Big Three," says AutoPacific Senior Vice-President Christopher W. Cedergren. That's because Japanese cars hold their value better than Detroit's. Knowing their cars will be worth more on resale, Japanese manufacturers can pass along that advantage in the form of lower monthly lease payments.

Honda is an example of just how ag-

EVEN THOUGH THE U.S. AUTO MARKET IS ROBUST...



..WILL HELP HOLD DOWN JAPANESE MAKERS' SHARE



**...A BIG PRICE ADVANTAGE
FOR DETROIT...**



STRAINED FINANCES. Detroit's greatest advantage, however, is its lock on the booming light-truck market. Last year truck sales zoomed 15.5%, with Detroit accounting for about 86% of the total—and Japan isn't likely to grab much more share. Why? The U.S. pickup market is protected by a 25% tariff, for one thing. And for Made-In-Japan trucks, Japan's price disadvantage is even wider than it is in cars—as much as \$4,000 by some estimates. Yet with its finances already badly strained, most Japanese companies can ill afford to develop new minivan and sport-utility models and put up new U.S. plants.

Japan's solution to this conundrum

will actually boost Detroit's sales—at least in the short run. Although a few companies, such as Honda, are producing new models of their own, others are turning to Detroit for new trucks, which they then sell under their own names. Last year, Mazda stopped exporting pickups from Japan to the U.S. and started selling rebadged Fords. Nissan's Quest minivan

is also made by Ford.

gressive Japanese carmakers are getting. When it launched its all-new 1994 Accord last fall, the company priced it at a relatively low \$14,330—the same price as its predecessor. Then, Honda launched a lease program for the Accord at the same time: Payments on a midline, \$18,300 model are \$239 a month—lower than those for a comparably equipped Pontiac Grand Am SE, which lists for \$15,769. Leasing also eases the sticker shock of price hikes, because resale prices jump right along with new-car prices. “It’s obvious that many Americans buy cars based on the monthly payments they can afford,” says Thomas G. Elliott, executive vice-president of American Honda Motor Co.

MORE OOMPH. The lease deals will buy time until Japan can achieve its longer-term goal: cost-slashing. Nearly all of the Japanese auto companies are in the midst of wrenching restructurings, including unprecedented plant closings in Japan and staff cutbacks in the U.S. operations of such companies as Nissan Motor Co. and Mazda Motor Corp. Ana-

lysts say such efforts could reduce costs by up to 20%.

Over the past year, Toyota has stripped \$1.5 billion from its overhead, cutting the number of models it makes by 20% and component variations by 30%. Nissan, which posted a \$263 million loss in the first half of 1993, slashed even further, going from 2,200 model specifications around the world a year ago to 1,400 today. The company is even quietly eliminating features, such as infinitely variable speeds on intermittent windshield wipers. "It's pennies, but if Toyota's looking at pennies, then we have to, too," says Earl J. Hesterberg, vice-president and general manager of Nissan's U. S. sales arm.

For each step Japan takes, though, Detroit redoubles its efforts. Indeed, the U. S. industry has more oomph going into 1994 than it has had in years. Japan still trails badly in leasing, which now accounts for nearly 25% of all auto sales. And in conventional sales, Detroit is pushing its price advantage with "value" pricing schemes that get sales perking

To be sure, any number of factors could give Japanese carmakers an unexpected boost. There's labor unrest at GM, for one. More than 2,000 United Auto Workers at the Shreveport (La.) truck-assembly plant have walked off the job, after bargaining over the local agreement broke down. The strike stalled production of GM's popular new Chevy S10 and GMC Sonoma pickups. Another potential hitch for Detroit: Production of such models as GM's Cavalier and Ford's Tempo and Mercury Topaz will have to be shut down for several months during retooling for model changeovers.

Still, Detroit is looking tough. It has a slew of new models coming out, including Chrysler's Neon and Ford's Contour. And for once, Big Three executives don't seem complacent. "I don't feel any relief or relaxation," says Ford Motor Co. Chairman Alexander J. Trotman. Even coming from Detroit's chief worrywart, that's a refreshingly realistic assessment.

By Larry Armstrong in Los Angeles
and Kathleen Kerwin in Detroit, with
Bill Spindle in Tokyo

GO SLOW? NOW, THAT'S RADICAL

Westinghouse CEO Mike Jordan is abandoning his slash-and-burn plans

Michael H. Jordan is talking tough. Speaking in New York on Jan. 11 in his first big meeting with securities analysts, the new CEO at Westinghouse Electric Corp. describes it as a "1950s-style" corporation full of deferential bureaucrats pushing memos. He calls it a place that predictably produces "a disaster of the year," most recently in its money-gulping environmental division. Cleaning up West-

he entered the job with misconceptions. Westinghouse "is no AlliedSignal," he says. "I didn't know much." Now, in lieu of radical, Bossidy-style sell-offs, Jordan is planning a more difficult go-slow approach—not that different in direction from the model left behind by former CEO Paul E. Lego, who resigned under pressure a year ago.

It's quite a gamble. Jordan announced a \$750 million pretax charge to slim

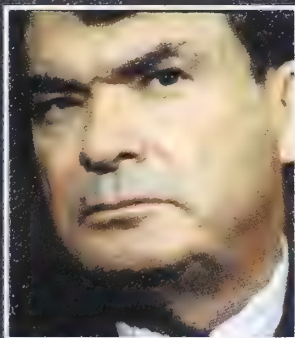
fat. Defense electronics, for example, went from 23,000 to 15,000 workers. What's more, unlike AlliedSignal, the company doesn't own a sizable core company with star potential. Instead, it has a stable of mature businesses, none of them close to a dramatic turnaround. So Jordan is holding on in hopes that he can nurture growth from within.

The question: Will Wall Street be patient? Jordan says the turnaround could take three to five years, earnings this year and next dragged down by mounting pension liabilities. The stock market hardly stirred at Jordan's announcements, nudging Westinghouse shares down $\frac{1}{2}$, to 13%, by Jan. 12. "Investors need to recognize that it's not going to be a one-year fix," says Judy Meehan, an analyst at Parker-Hunter in Pittsburgh. "We're not recommending the stock."

Jordan's hope is that slow-growth businesses, when run well, can make money. His model, he says, is General Electric Co., Westinghouse's age-old nemesis, which made nearly \$14 billion in net profits over the past five years, while Westinghouse, burdened by a disastrous financial services division, wallowed in the red. By cutting costs, trimming headquarters and flattening Westinghouse's imposing bureaucracy, Jordan hopes to double productivity growth and raise profits by 11% to 12% annually. Key to this goal, he says, is a cultural revolution in Westinghouse's management. To help promote change, Jordan expects to name three or four outside ex-



■ Westinghouse remains a "1950s-style" company teeming with memo-pushers



■ When he agreed to take Westinghouse's top job, Jordan says, "I didn't know much"



■ The remedy: "Every now and then, shooting somebody in the courtyard"

ghouse, he goes on, requires a cultural switch to "in-your-face management"—and, he adds, "every now and then, shooting somebody in the courtyard."

If Jordan sounds like a guy who eats roofing tacks for breakfast, it's because the 57-year-old CEO is betting his job at tough new management can lead the troubled Pittsburgh company to recovery—without selling off any of its divisions for much-needed cash. When he was hired at Westinghouse last June, the former McKinsey & Co. partner and PepsiCo Inc. executive was widely expected to spin deals, selling off companies or even divisions such as defense electronics or broadcasting. This, it was hoped, would tidy up Westinghouse's staggering balance sheet and send the depressed stock soaring. The analysts' model: Lawrence A. Bossidy's spectacular turnaround at AlliedSignal Inc.

months later, Jordan admits that

down Westinghouse and resuscitate its balance sheet. But debt, at \$4 billion, is still nearly four times equity, and Westinghouse's bonds were downgraded to junk status last week by Moody's Investment Services. Worse, pension liabilities will gobble up much of operating earnings this year and next.

ONGOING BATTLE. This means Jordan will struggle for cash as he works to build Westinghouse's core businesses—power generation, nuclear energy, defense electronics, refrigerated transport, and Group W Broadcasting. Robert A. G. Monks, a principal of LENS Inc., which holds \$3 million of Westinghouse stock, says he worries about skimping on investment in the most important operations: "He's living pretty dangerously."

Why doesn't Jordan slash more? He says that by the time he came to Westinghouse, three years of financial crisis had already squeezed out much of the

executives to top posts within months.

He's also looking abroad, nailing down joint ventures in China for power generators. He hopes to upgrade nuclear power plants throughout Eastern Europe and the Soviet Union and has already signed a \$442 million contract to complete a complex in the Czech Republic. The Eastern Europeans also need air-control systems, in which Westinghouse is a world leader.

If Jordan's strategy pays off, Westinghouse should climb back to profitability by 1996, analysts say. But if he stumbles, he may reconsider a quick sale. The logical candidate is Group W, the company's profitable broadcast unit. By selling half the unit, he could raise a quick billion while securing a strong partner for the airwaves and cable wars ahead. It's sure to be a tempting thought in the austere days ahead.

By Stephen Baker in New York



A BEATRICE-OWNED FRANPRIX IN PARIS: THE CHAIN IS ONE OF A FEW BRIGHT SPOTS

TLC BEATRICE COULD USE MORE THAN TLC

The food colossus is floundering—and in need of a CEO

When Reginald F. Lewis snared headlines in 1987 for his \$985 million leveraged buyout of Beatrice Cos.' international operations, he made clear his intention to keep the \$1.6 billion food conglomerate a family enterprise. After all, the deal was a gleaming symbol of progress by a determined African-American businessman. Yet one year after Lewis' death from brain cancer, there are signs that his family, which owns more than 50% of TLC Beatrice, may be having trouble maintaining that legacy.

On Jan. 5, the company, now known as TLC Beatrice International Holdings Inc., announced that Lewis' half-brother, Jean S. Fugett Jr., had stepped down as chairman and chief executive officer. Succeeding him as chairman: Lewis' widow, Loida Nicolas Lewis, a 50-year-old immigration lawyer who acted as her husband's informal business adviser over 24 years of marriage. Fugett, also a lawyer as well as a former National Football League tight end with the Washington Redskins and Dallas Cowboys, stays on as a director. Meanwhile, the company is scouting for a new CEO.

"GOOD JOB." TLC Beatrice is downplaying the changes, saying they are part of a long-planned succession. Still, the shakeup has raised questions anew about how TLC Beatrice is coping after the loss of Lewis, its hard-driving visionary. For the first nine months of 1993, revenues slid 1.4%, to \$1.2 billion, partly due to recession and increasing competition

in Europe, where its businesses operate. But more alarming are the weakened finances: In documents filed in December with the Securities & Exchange Commission, TLC Beatrice reported that working capital was off sharply (chart).

Both Loida Lewis and Fugett declined to be interviewed. TLC Beatrice officials say Loida Lewis planned to assume the helm after the one-year bereavement period customary in her native Filipino culture. "It was always expected that Mrs. Lewis was going to take over," says board member James E. Obi. "And although the results were not as good as expected, [Fugett] did a good job. It was not entirely his fault."

But sources familiar with the situation say Fugett's stepping down was prompted by private shareholders who had lost confidence in his ability. "Reginald Lewis was the company," says Gerald B. Unterman, president of GEM Capital Management, one of a few outside investors to own TLC Beatrice shares. "They need to replace him with a seasoned, proven execu-

tive familiar with the food business."

Shareholders' disenchantment with Fugett surfaced at the company's July annual meeting, where they confronted him about reports that TLC Beatrice was interested in acquiring the Baltimore Orioles. Fugett confirmed the reports and elaborated on his wishes to diversify. Confronted with such a bizarre scheme for a food company, "we were taken aback," recalls a shareholder at the meeting. Admits director Lee A. Archer Jr.: "I thought it was not the greatest idea in the world."

TOUGH SELL. Already frustrated by TLC Beatrice's flagging performance and the \$22 million the company paid Reginald Lewis for five years' work, shareholders began pressuring the company to trade its stock publicly as well as to tap a new CEO. TLC Beatrice, known for being intensely private, bristled at the request. But in December, the company agreed to register its shares with the SEC. The registration will allow 1.6 million of the company's 9 million shares, now trading among private investors at roughly \$45, to trade publicly. It will also require TLC Beatrice to report its financial results for the first time since 1991.

Selling its shares publicly will be tough unless TLC Beatrice can convince investors that it's headed in the right direction. That means naming a CEO capable of invigorating the company's European performance.

Beatrice does have some success stories there, such as its Franprix and Leader Price store chains in Paris. But in the premium ice cream business, such Beatrice brands as Artic in France and Sanson in Italy are squaring off against products from giants

Grand Metropolitan PLC and Unilever PLC, which both want to dominate the market. In the first nine months of 1993, poor results in ice cream and desserts pushed sales of the grocery products division unit down 19%.

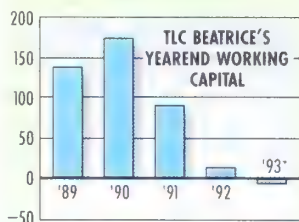
It's the kind of drama Reginald Lewis was known to relish. Even the title of his posthumous autobiography, due out this fall, smacks of his hard-boiled determination, asking sarcastically, *Why Should White Guys Have All The Fun?* Just now, though, his heirs aren't having much fun at all.

By Ron Stodghill II in New York



CHAIRWOMAN LOIDA LEWIS

FINANCIAL TROUBLES AT BEATRICE



▲ MILLIONS OF DOLLARS *AS OF SEPT. 30, '93

DATA: COMPANY REPORTS

SARA LEE ISN'T EXACTLY COOKING

Cost-cutting president has abruptly quit amid management turmoil

As most Chicagoans brave the cold, snowy winter, Cornelis Boonstra suddenly has plans to spend a lot of time in the Bahamas. After just six months as the globe-trotting president of consumer-products giant Sara Lee Corp., Boonstra abruptly resigned on New Year's Eve. In an interview with *BUSINESS WEEK*, he deared himself "extremely tired after very heavy travel" through 20 years of helping build Sara Lee's European business—and since July, leading restructurings in Europe and the U.S. Now, with his Caribbean home beckoning, the 56-year-old native of the Netherlands says: "I feel my job is done."

Yet the suddenness of Boonstra's departure, only two months after he abruptly addressed Sara Lee's annual meeting as its "first non-American president," stunned insiders and outsiders alike. Perhaps it couldn't have. There is little doubt the job wore Boonstra down. But his exit may have been hastened by the management upheaval forced by his tough cost- and job-cutting.

Early on—even before Boonstra moved to Chicago—there were questions among some board members about how, as the No. 2 executive, his direct, sometimes impatient management style would mesh with the more genteel approach of his predecessor, Paul Multon, and of longtime Chairman and Chief Executive John H. Bryan. (Bryan declined to comment for this story.) More recently, says one source close to the board, there was some "restiveness [in the management] ranks."

LEANER TIMES. You might say. Since Boonstra's appointment, at least eight senior executives have left the company. Among them: M. Weldon Schenck, a senior vice-president who headed Euro-
personal products, and William P. [unclear], another senior vice-presi-

dent and controller. Some insiders and outsiders blame Bryan for allowing the tension to spread. "Hundreds of years of management experience have been taken out of a successful company," gripes one former senior European executive.

Boonstra also helped cut 10% of the 330 jobs at the Chicago headquarters. He oversaw a management restructuring at the big Winston-Salem (N.C.) World-

tough cost-cutter, and that's why we liked him on Wall Street," says analyst Nomi Ghez of Goldman, Sachs & Co.

Indeed, most former Sara Lee executives applaud Boonstra's strategy to drive down costs and decentralize management. For his part, Boonstra insists, "there was no misunderstanding between Mr. Bryan and myself" on strategy. A source close to Bryan also says there was no falling-out over strategy.

EMPTY OFFICE. That may be because Sara Lee shows signs of needing a jolt. Ghez figures the company's earnings will rise just 8.4% this year, to \$763 million, on sales of \$15.6 billion, up 6.8%—not bad in a consumer-goods industry hit by fading brand loyalty but far below Sara Lee's five-year average of 16.7%. The chief problem is the \$6.1 billion personal-pro-

ducts unit—now the company's largest—where Europe's recession and a shift away from many of its hosiery lines is driving down profits after years of growth.

Sara Lee insiders and former executives wonder how the company will manage the transition to a period when growth will be much harder

to come by. With Boonstra gone, the president's post will be left open, at least for now. Chief operating responsibilities will be split between 58-year-old Donald J. Franceschini, a tough outsider who came to Sara Lee with its 1991 Play-

tex acquisition and will now oversee all personal products, and C. Steven McMillan, a 48-year-old veteran who will run all meat, coffee, and house-

hold-products operations.

But the tone, say insiders and outsiders, must be set by the 57-year-old Bryan—and soon. He comes under criticism from many for being too detached from daily operations. "This is an embarrassment to the chairman," says one senior executive in Winston-Salem. "He has got to take steps to calm the organization down." Most believe he will—and that a company rich in brands and in management depth eventually can recover. But it's also clear that Bryan has some way to go to re-create the entrepreneurial culture he believes is vital. Too many executives still are uncertain of their future.

By Richard A. Melcher in Chicago



McMILLAN: GAINING



BOONSTRA: BYE-BYE

CHAIRMAN BRYAN: TOO DETACHED FROM DAILY OPERATIONS?

wide Personal Products Div. headquarters, as well as the closure of two hosiery plants. And he installed a new management team in the Paris personal-products operation. So his departure could help restore calm among scores of managers fearful for their jobs.

But if the messenger is gone, his message still resonates: Sara Lee needs to hunker down for leaner times, especially in such core businesses as its Hanes and L'eggs hosiery businesses. And after a furious three-year, \$1.7 billion acquisition spree, adding such well-known brands as Brylcreem, Mark Cross leather goods, and Playtex bras and lingerie, there's clearly a need to revamp the structure. "Boonstra was known as a

ANOTHER WINTER OF DISCONTENT

After two years in Chapter 11, there's still no turnaround at Macy's

On Jan. 27, retailer R. H. Macy & Co. will mark its second anniversary under bankruptcy protection. It's a disheartening milestone: The company probably won't emerge from Chapter 11 until 1995 or later, and now, a merger bid by Federated Department Stores Inc. makes Macy's future even more unclear. Most vexing for Macy's investors: Christmas sales gave no strong indication that a major turnaround is at hand.

In the crucial month of December, sales at Macy's stores open a year or more inched up just 1.7%. By comparison, same-store sales rose 4.8% at Feder-

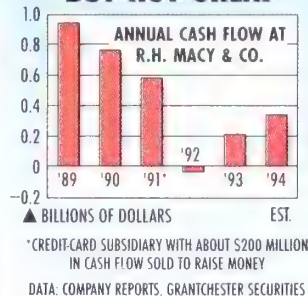
ated, 4.9% at May Department Stores, and 5% at Dillard Department Stores. "The Macy's numbers we see are not good numbers," says Roz Kafri, a debt analyst at Grantchester Securities. "O.K., you have to credit management for doing better than last year—but last year was a disaster." Still, Macy's Chairman

Myron E. Ullman III is optimistic: "Even though we didn't get the sales we anticipated, we improved our margins."

"REALISM." Macy's cash flow did jump 30%, to \$266 million in December, thanks to cost-cutting and fewer promotions. But in a business plan distributed last May, Macy's projected 5.5% same-store sales increases in fiscal 1994. Now, Ullman says he expects just 1.5% growth.

Ullman notes that Macy's operates on the East and West Coasts, which are only slowly shaking off the recession.

BETTER, BUT NOT GREAT



"Would I like to have explosive top-line growth? Absolutely. But it's not going to happen quickly," he says. Ullman insists Macy's will meet the \$358 million in cash flow projected for the year ending July, 1994, up from \$209 million in 1993. That's an improvement, but nowhere near Macy's peak results (chart).

Ullman will be getting some crucial help come July. That's when Roger N. Farah, a well-regarded merchant and former chairman of Federated's Merchandising Services unit, joins Macy's as president and chief operating officer. Meanwhile, Ullman vows that he doesn't need Federated to achieve Macy's turnaround. "We believe that in the long run, we can grow this franchise," he says. It's an assertion many are still waiting for him to prove.

By Laura Zinn in New York

ELECOMMUNICATIONS

FUTURE PHONE?

AT&T's surprising entry in the info Highway derby: The telephone

Just how will consumers get onto the Information Superhighway? Some companies say you'll use a personal computer. Others say it will be a souped-up cable-TV converter box. It could even be some specially designed gizmo none of us has heard of yet.

If American Telephone & Telegraph Co. has its way, consumers would tap into the promised flood of digitized movies, games, and data by that most ubiquitous of communications gear: the telephone. Under a hush-hush program called Project Sage, AT&T engineers have reinvented the phone to act as the central controller that will funnel information to and from the TV, video-game player, PC, fax machine, VCR, answering machine, and video camera. After Sage hits the market, maybe as soon as 1995, "it's going to be increasingly difficult to figure out what's a game machine, what's a computer, and what's a telephone," promises AT&T Consumer Products Div. President Carl S. Ledetter, who heads the effort.

To work its magic, this phone will pack the power of a PC and special software and circuitry to manage the digitized information coming into the home over phone or cable-TV wires. But if it works as promised, it won't be any harder to use than today's telephone.

MASTER MIMIC. The Sage phone will accept electronic plug-in cards slightly bigger than credit cards. Each will mimic an existing appliance or connect to one. A digital phone-machine card would store messages. Another would function as the set-top control box for cable TV. Another would act as a Sega video-game machine. Yet another would connect your PC to the network. AT&T will even offer a card that enables the camcorder and TV to make video calls.

The software making all this possible comes from AT&T as well as from Gener-

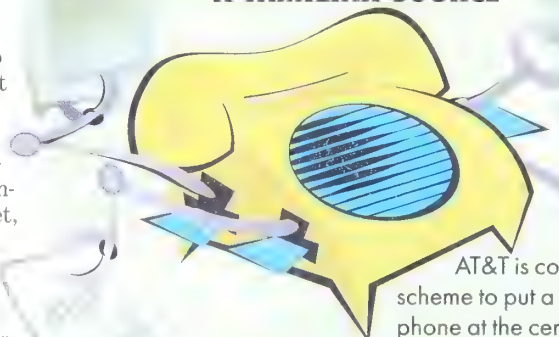
al Magic Inc., a startup in which AT&T is an investor. General Magic has designed an "agent," a type of software that can perform such tasks as calling out across the Information Superhighway to find all the programs about, say, gardening.

Sage could be a big gamble. AT&T must convince cable-TV and local phone companies, among others, that they would benefit by using compatible equipment. "We want to build a standard that people can rally around," Ledbetter says. AT&T will allow others such as Microsoft Corp. to create the software for the TV-screen menu that consumers will use to navigate through the digital data. But Microsoft is readying its own system for the Information Superhighway. And cable and phone companies are already working with other suppliers to devise their own proprietary home controllers.

AT&T has some pluses, though: its strong brand name, its distribution in consumer-oriented stores, and some useful alliances, including an investment in 3DO Co., whose game machines will double as cable converters. And by the time Sage prototypes emerge late this year, a revamping of national communications policies may open cable and phone systems to all equipment suppliers (page 88). That would help AT&T make sure that the telephone, a marvel of this century, remains a staple in the next.

By Bart Ziegler in New York

MULTIMEDIA FROM A FAMILIAR SOURCE



AT&T is concocting a scheme to put a souped-up phone at the center of a home-information network. The new phone would plug into the Information Superhighway and link a TV, PC, camcorder, and other devices.



P u t t i n g I m a g i n a t i o

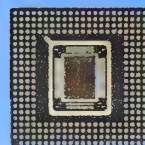
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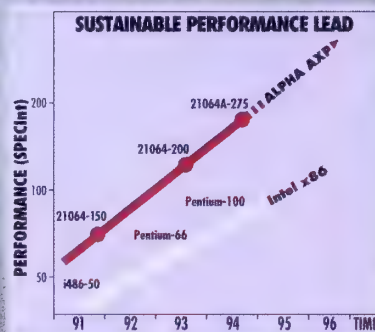
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Commentary/by Mark Landler

THE FAT LADY HASN'T SUNG AT PARAMOUNT

Sumner M. Redstone's grandchildren call him Grumpy. And on Jan. 10, the chairman of Viacom Inc. was living up to his nickname. Three days earlier, Redstone had made his boldest move yet in the battle for Paramount Communications Inc., only to be pelted with insults on Wall Street. Now, as he defended the proposed deal in an interview with *BUSINESS WEEK*, Redstone didn't bother to hide his irritation. "When the other side takes a position, it's treated as rational and thoughtful," he groused. "But when we do the same thing, it's somehow not treated that way."

The veteran dealmaker contends that his new bid for Paramount is eminently rational. For starters, he has raised the cash in his offer from \$85 to \$105 a share, surpassing the \$92 that was offered by rival QVC Network Inc.

His goal was to satisfy Paramount shareholders and arbitrageurs, who had voiced a preference for QVC's sweeter cash component. To finance the bid, Redstone is getting an additional \$1.25 billion from Blockbuster Entertainment Corp., which already had kicked in \$600 million. And in return for Blockbuster's generosity, Viacom will merge with the home-video giant in a stock swap that values the company at \$8.4 billion.

"DESPERATION MOVE." But virtually everyone dislikes the deal—from the barbs to the shareholders of Viacom and Blockbuster. Some people accuse Blockbuster Chairman H. Wayne Huizenga of selling out his company for a meager 10% premium. Others say Redstone, out of hunger for Paramount, has yoked his fast-growing company to an outmoded retailer. "Sumner's merger is a desperation move to stay in the game," says a major investor in Viacom and Paramount.

Worst of all, because of its poorer stock component, Viacom's overall bid is actually \$750 million less than QVC's (table). QVC says Viacom simply tossed off a confusing 11th-hour bid to prevent Chairman Barry Diller from clinching his deal. And on Jan. 12, Paramount's board recommended that shareholders reject Viacom's new offer.

So Redstone really blew it, right? Maybe not. Sure, Viacom irked Wall Street by springing its new bid min-

If Redstone does win, the Blockbuster merger will make the Paramount acquisition more fiscally manageable. With \$410 million in 1993 operating earnings, Blockbuster would serve as a handy cash generator for a company that would lumber under \$9 billion in debt. Without Blockbuster, Paramount-Viacom's 1993 cash flow would cover the interest payments only 2.3 times. Add in Blockbuster, and the ratio jumps to 3 times. "Viacom is doing

this for financial strength, not strategic reasons," says Lisbeth R. Barron, a media analyst at S.G. Warburg & Co.

CLOUT. Even though the synergies between Viacom and Blockbuster aren't exactly scintillating, the two do complement each other in a few areas. By teaming up with the No. 1 video retailer, Viacom gains clout with studios for rights to movies. That could bolster its Showtime pay-TV service.

It is Huizenga, in fact, who has the tougher sales job. Several Blockbuster shareholders have already filed lawsuits, contending that he didn't command enough of a pre-

mium for giving up control. Huizenga, who will become vice-chairman, argues that Viacom-Blockbuster's assets give Blockbuster shareholders the chance to reap far more than a 10% premium in the long term. "If I didn't think it was a wonderful deal, why would I have given up control?" he asks.

With the battle in its last stages and with neither bidder willing to pay any more in cash, the Paramount stockholders must now ask themselves the logical next question: Do the broader assets of Viacom-Blockbuster outweigh the wizardry of Barry Diller? Everything else, as Diller himself would say, is just "noise."

Landler covers the media business.



PARAMOUNT'S DEEP SPACE NINE

WHY CASH ISN'T KING

How to calculate the value of the Viacom and QVC bids for Paramount:

VIACOM	
▶ \$105 cash for 50.1% of Paramount shares	\$52.61
▶ Package of securities for 49.9%:	
Viacom B stock at \$38.88*	\$18.05
Convertible preferred equity	\$6.44
TOTAL VALUE PER SHARE	\$77.10

QVC NETWORK	
▶ \$92 cash for 50.1% of Paramount shares	\$46.09
▶ Package of securities for 49.9%:	
QVC common stock at \$41*	\$29.26
Nonconvertible preferred equity	\$6.78
Warrants	\$1.25
TOTAL VALUE PER SHARE	\$83.38

*STOCK CLOSING PRICES AS OF JAN. 12.
DATA: COMPANY REPORTS, S.G. WARBURG & CO.

utes before the Jan. 7 deadline set by Paramount's board. But Redstone did buy himself 10 more days. Now, with Viacom and QVC stock prices seesawing as each takes a perceived lead in the battle, Redstone's offer could end up matching QVC's by Jan. 21. If it doesn't, he may yet boost the stock offer.

More important, Redstone is resisting a 1980s impulse to shoot the moon. "Our job is to win this with a reasonable offer," says Frank J. Biondi Jr., the Viacom CEO. Diller shares those sentiments: He says that Paramount is "fully valued." As a result, when the gavel finally falls, Paramount will likely fetch around \$80 a share. Who will be hurt by this? Only the arbitrageurs, who bet on a further round of bids.

MANAGED CARE —AND MANGLED CAREERS?

Chiropractors and physicians sue, charging restraint of trade

The health-care plan conceived by Bill Clinton is months, maybe years away from becoming anything more than a dense stack of papers. But that's not stopping some health-care providers from launching guerrilla assaults on the cornerstone of the President's plan: managed competition.

Indeed, lawsuits challenging managed care are surfacing nationwide. In a little noticed suit in December, for instance, about 50 chiropractors in and around Suffolk County, N.Y., sued about a dozen health-maintenance organizations and their trade associations for antitrust violations. In other areas, antitrust suits have been brought by radiologists, podiatrists, allergists, and specialized hospitals excluded from health networks. And as relationships between networks and physicians solidify, and the Clinton health-care plan creeps closer to reality, more groups are expected to head to court. Among the likely complainants: psychiatrists and osteopaths.

What's the beef against managed care? The New York chiropractors are pretty typical. They argue that the defendants, including U.S. Healthcare, Aetna Health Plan of New York, and Health Insurance Plan of Greater New York Inc., have "conspired to boycott and otherwise exclude" chiropractors from their plans—thereby preventing them from effectively competing in the marketplace. The chiropractors feel this alleged anticompetitive behavior is so harmful that they are seeking at least \$10 million in damages.

PHILL BATTLE. Consider the case of 51-year-old Dr. Phillip J. Solla. For the past 30 years, Solla has had a thriving chiropractic practice in Lindenhurst, N.Y. Not long ago, he noticed some of his patients were having difficulty getting insurance coverage for his services. So Solla tried to join his patients' preferred-provider networks—formal associations of health-care providers that sell their services jointly through HMOs and PPOs. That's when his troubles began.

Along with several colleagues, Solla sent 30 registered letters last July to carriers seeking inclusion in their health-care plans. One by one, the doctors were told that quotas for chiropractors were already filled or, in some cases, that chiropractors weren't allowed in the plan at all. Unable to infiltrate any of the local

health-care networks, the chiropractors say their business is off by as much as 50%. "Managed-care programs are single-handedly decimating the chiropractic profession," fumes Solla.

These plaintiffs, however, face an uphill battle. That's because antitrust law is designed to protect consumers from harm, not competitors.

Sure, defense lawyers acknowledge, managed-care organizations may not always seem fair—especially when the doctors some patients want cannot participate in their health plans. But, says William G. Kopit, an expert in health-care and antitrust law who represents two defendants in the chiropractors' suit: "It's also unfair that I wasn't born with the athletic ability of Michael Jordan or the money of Donald Trump." Provided your care is good, Kopit asks, "are you really willing to pay 10% more for care to ensure every competitor is treated fairly?"

In several cases, courts have basically agreed with Kopit's line of reasoning. In one suit decided last year, a radiology group claimed that it was illegally barred from an association that provided exclusive services to an HMO in upstate New York. An appellate court found that although the radiologists might have been harmed, consumers still got the



SOLLA (CENTER) AND COLLEAGUES: A BONE TO PICK

quality medical care they needed.

To avoid more such defeats, health-care providers are trying to prove that HMOs actually hurt patients by limiting their choices of care. The chiropractors, for example, are relying on the woeful tales of patients such as Kathleen Kelly, an unemployed clerical worker in North Babylon, N.Y. A sufferer of chronic back pain, Kelly had been seeing her chiropractor for years. But when her husband's insurance was changed, she found that the only chiropractor in her plan was more than 20 miles away. Kelly says she didn't have the money to pay her former chiropractor and that the trip to the one in the plan was simply too long. Today, she says flatly, "I am suffering for it."

Sounds like Kelly may have a point, doesn't it? As the Administration tries to put its health plan into effect, such sounds may reverberate across the land.

By Linda Himmelstein in New York

MARKETING

I HAVE SEEN THE FUTURE, AND IT—URP!

Barflies are going interactive with NTN's QB1 game

Sooner sets down his beer, glances at the TV screen, and punches a prediction of the next play into the remote control on the bar. The quarterback snaps the ball, and Sooner's out of his seat yelling in delight. He's called it right, and the play vaults him ahead of two dozen competitors on a recent Monday night at Stuart Anderson's Black Angus Restaurant in Burbank, Calif.

For Sooner—the handle he typed in at the beginning of the season—it's now a weekly ritual to play the game, called QB1, with his buddies during ABC's *Monday Night Football*. All those nights were just the warm-up: On Super Bowl Sunday, more than 35,000 sports fans will show up at some 1,500 bars and restaurants for an epic session of QB1.

This is interactive TV, the stuff of

reams for such giants as me Warner, QVC Network, and Bell Atlantic. For most Americans, it's mainly hype. But for a growing group of surfies, interactive TV is real. Thanks to NTN Communications Inc., a tiny, publicly traded Carlsbad (Calif.) company. "For all the talk," says James Hartke, an analyst at New York's Laidlaw Equities Inc., "NTN is still the only name in town."

After accumulating \$25 million in losses, NTN also seems poised to scoring. It just reported its first profitable quarter and figures 1993 revenues doubled, to around \$11 million. It runs interactive programs 14 hours a day, and it has cut 40 licensing deals for its programming. "There is no question that we were the pioneers of interactive TV," says Chairman Donald C. Klosterman. **WINGO AND BENNIGAN'S.** Just five years ago, Klosterman was simply hoping NTN could survive. A former general manager of the Los Angeles Rams, he teamed up in 1980 with two other sports executives, Patrick J. and Daniel C. Downs, to develop QB1. In 1983, with a \$1 million loan from Time Inc.'s Home Box Office, they founded NTN to beam interactive TV programs into homes. But after Time Inc. wrote off its mon-



TALK ABOUT HIGH TECHNOLOGY: "THERE IS NO QUESTION WE WERE THE PIONEERS OF INTERACTIVE TV," SAYS NTN CHAIRMAN DONALD KLOSTERMAN

ey-losing *TV-Cable Week* magazine later that year, HBO pulled out. The founders ended up working without paychecks for three years: All of them lost their homes. Desperate, they decided to build an interactive network themselves, starting with football in bars. "We wouldn't have to convince consumers to buy an expensive set-top box—and we knew we could make a profit there," says President Pat Downs. Digital signals are beamed to bars by satellites, and players' scores are returned by telephone to Carlsbad, where NTN can rank players nationally.

The company charges bar owners \$595 a month for its programming,

which includes trivia contests and baseball-linked games. "We wouldn't have invested in it if it didn't give us an attractive return on investment," says Alan Fronke, an executive at American Restaurant Group Inc. in Newport Beach, Calif. The group has more than 100 NTN systems in its Black Angus and Spoons chains. Other subscribers include the Hilton hotel chain, and Bennigan's restaurant group.

NTN has more plans, too. The company is testing "Triples," where cable-TV subscribers play for points during

broadcasts from California's Los Alamitos Race Course. It also just formed a subsidiary to profit from the legalization of home wagering on horses in seven states, including New York, Pennsylvania, and Kentucky. International Wagering Network, or IWN—pronounced I Win—hopes to handle the wager from the swipe of the credit card on the set-top box to the pari-mutuel machine that tallies the bets back at the track.

IWN is also eyeing TV Bingo, which it wants to run in cooperation with churches, racetracks, bars, and churches: The interactive biz—and NTN—are certainly attracting some intriguing players.

By Larry Armstrong in Los Angeles

MARKETING

REEFER MADNESS AT HAVATAMPA

ot smokers are stoking sales by turning Phillies Blunts into joints

Not many of the folks down at sleepy little Havatampa Inc. know much about fads in the inner city. So it came as a shock to the Tampa-based cigar manufacturer when sales of one of its products—a \$1-per-peeve-pack cigar known as the Phillies Blunt—suddenly started shooting up. Blunts, it seems, have become a status symbol among inner-city youths—immortalized in song by the likes of Latino rappers Cypress Hill. "It's a real head-baker," marvels Ruth Bruzel, a Havatampa senior vice-president. "We didn't even know these rap musicians were singing songs about us."

A pleasant boost to sales that any company would enjoy? Hardly. This new popularity of Phillies Blunts has become

what Westport (Conn.) marketing consultant Peter Flatow terms "a very tough problem" in damage control for the 87-year-old, closely held Havatampa.

The reason: Blunts are now among the paraphernalia of choice for urban pot smokers. On the street, to "get blunt" means to slice open a blunt—a generic term for a flat-ended cigar—and restuff it with marijuana. The result is an extra-large joint veiled by the odor of cigar smoke. And with the resurgence of marijuana smoking, the trend is spreading among suburban Generation Xers, as well.

PIRATE CAPS. What's a company to do? Havatampa has found it cannot do much to dampen drug users' enthusiasm for its product. It has decided instead to focus on protecting its brand's image. Phillies Blunts' red and white logo has been showing up—largely in pirated versions—on T-shirts and caps nationwide, making it almost as synonymous with pot-smoking as the marijuana leaf



was in the 1960s. "It's been trademarked since the '50s," says Chief Executive Thomas D. Arthur. "But we'd never had occasion to enforce it before this."

Havatampa's solution: It approached a small company, Not From Concentrate, in New York City that already was bootlegging the logo and struck a deal. In return for maintaining quality control and avoiding any direct association with marijuana, the marketer has exclusive rights to reproduce the logo on shirts, caps, and sweat-gear. Now, says Jeremy Hurely, a co-founder of Not From Concentrate, "it's our best seller." Still, for every legitimate T-shirt sold, lots are still bootlegged.

Meanwhile, to avoid the appearance of profiting from the products, Havatampa is donating the \$24,000 in royalties it has earned so far to inner-city charities. Apart from that, executives say, about all they can do is wait and hope that smoking a blunt one day goes back to meaning puffing on a cheap cigar.

By Julie Tilsner in New York

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CLOSING BELL



THE BABY BELLS TAKE A HIT

News that MCI would spend \$2 billion to build local phone systems in 20 major cities sent baby Bell stock prices tumbling: BellSouth dropped 9.2% in the day following an early report of the initiative; Southwestern Bell fell 13.7%. The threat to local phone operators: Analysts contend they typically derive most of their profits from the access charges they levy on such long-distance carriers as MCI to complete their calls. Still, Wall Street may be overreacting. It could be years before MCI makes a dent in local markets.

DATA: BRIDGE INFORMATION SYSTEMS INC., BW

NO BRASS RING FOR MERRY-GO-ROUND

One more fumble for Leonard "Boogie" Weinglass. Last year, his bid for an NFL expansion team in Baltimore failed. On Jan. 11 came a more critical loss: Weinglass' once-stellar clothing retailer, Merry-Go-Round Enterprises, filed for Chapter 11 bankruptcy protection. The outfit grew to over \$800 million in annual sales from a single hippie boutique. Weinglass opened in the 1960s, but an aground trying to keep up with fickle teenage tastes. Weinglass, who for years headed the 1,445-store chain, stepped in and took over as CEO.

ALEVE HOPS OVER THE COUNTER

Headache? Sinus cold? Soon you'll find one more pain remedy in your drug-gist's already jammed analgesics shelf. The Food & Drug Administration on Jan. 11 approved Aleve, based on top-selling prescription drugs Naprosyn and Anaprox, for over-the-counter sales. Procter & Gamble and Syntex, which created a joint venture in 1988 to market the drug, will kick off consumer advertising this spring as they attempt to establish Aleve in the three years they have exclusive rights to the formula. One likely pitch: that Aleve's relief lasts longer than competing painkillers'.

FIXING THE FIZZ AT DIET COKE

How will Coca-Cola's marketing change under marketing chief Sergio Zyman? If the Jan. 12 unveiling of an estimated \$60 million campaign for Diet Coke is indicative, expect a back-to-basics tone. Look for wry, often sexy scenes of people downing Diet Coke in the midst of a hectic day, with the slogan "This is refreshment." Coke describes the new ads as more focused than last year's obtuse, New

HEADLINER

NEW FACE AT THE FED

If, as seems likely, President Clinton nominates Brookings Institution economist George L. Perry to the Federal Reserve Board, the central bank will gain a strong voice against precipitous interest-rate hikes. The Fed, said Perry in a December interview, "needs to be concerned with output and employment as well as inflation."



Perry, 59, would replace the board's toughest inflation hawk, Wayne D. Angell, who favors a preemptive rate hike to nip price increases. But Perry argues that no action is needed, because "inflation is receding for now and is under control for as far as anyone

can know into the future."

The President's advisers thought Princeton University economist Peter B. Kenen, the runner-up, had stronger academic credentials. But Perry, a 25-year Brookings veteran, proved to be more charming, articulate, and politically savvy. At first, the advisers say, he balked at the post's \$123,000 salary—a big cut from his consulting job. He reconsidered after being told he'd be a candidate for Fed vice-chairman when David Mullins' term expires in 1995. Clinton is expected to ratify the choice after he returns from Europe.

By Owen Ullmann

Age-ish "Taste It All" spots. A lot is on the line: Diet Coke's U.S. share is slipping.

SEGA KILLS OFF ITS ZOMBIES

Nintendo won a round in its ongoing public-relations fracas with Sega for moral preeminence in the video-game business. Sega

agreed on Jan. 10 to pull remaining copies of its compact-disk game, Night Trap, from store shelves. This after Nintendo sent reporters videotapes of scenes from the game, showing nightie-clad women being abducted by zombies. Sega says it is negotiating a re-edit with the game's developer, Menlo Park (Calif.)-based Digital Pictures, but Digital Pictures President Tom Zito says the game may never be reissued unless the public is made to understand that it is intended for adults.

PHOTO FINISH



COOKIN': BOSTON CHICKEN, PLANNING TO DOUBLE IN SIZE THIS YEAR, WILL FRANCHISE 300 OUTLETS TO CARL KARCHER ENTERPRISES

ET CETERA...

- ▶ Toys 'R' Us will buy back up to \$1 billion of its stock and open 115 stores in 1994.
- ▶ Four months after losing Absolut vodka, Grand Mer will sell Stolichnaya instead.
- ▶ RiteAid said it will sell off four noncore businesses and close 200 drugstores.
- ▶ Cray Research computed the largest prime number known, with 258,716 digits.

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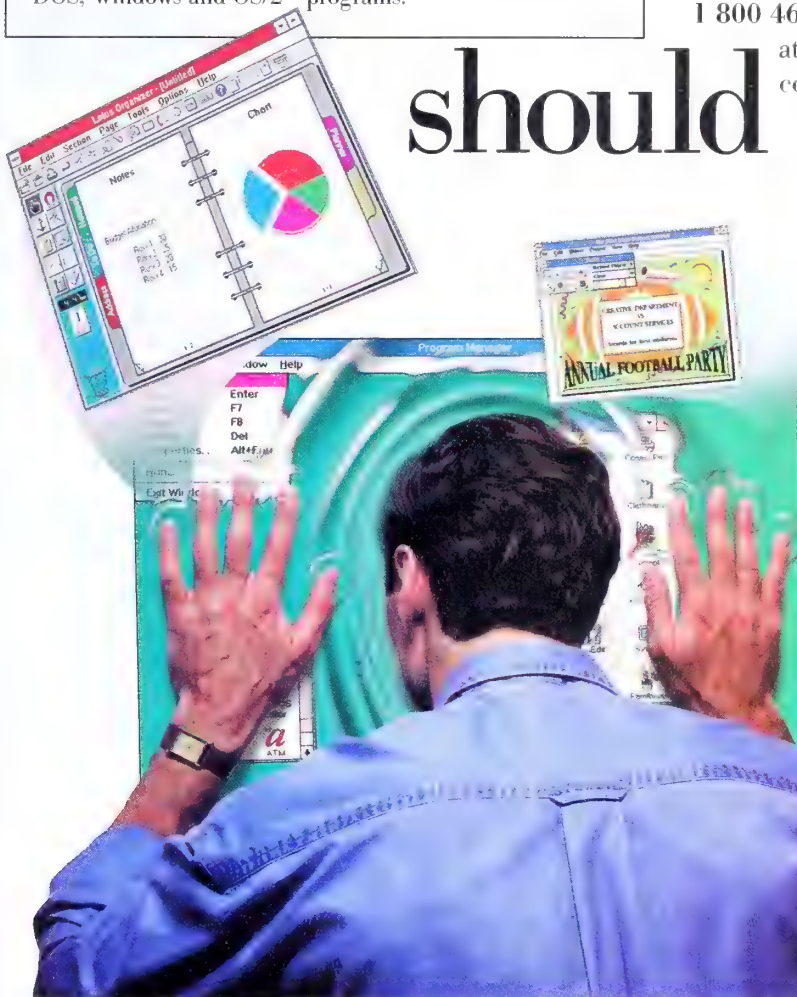
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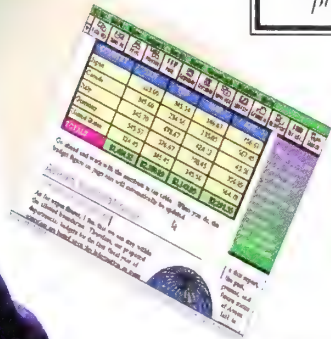
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THE MELTDOWN AT METALLGESELLSCHAFT...

Why Heinz Schimmelbusch's bold strategy didn't add up

The bulletproof Mercedes sedan pulled up onto the sidewalk within inches of the front door of a Frankfurt restaurant. Heinz Schimmelbusch, chief executive of Metallgesellschaft, jumped out and strode to his favorite table. Over prawns by candlelight, he spoke ardently of his vision to create a technology powerhouse out of a loss-making metals company. "We have an unprecedented environmental lead," he said. "We have the biggest technology bank in the world."

In those heady days in 1990, Schimmelbusch captivated the imagination of Germany. Volatile and charismatic, he had just recently been named CEO of the Frankfurt-based Metallgesellschaft. A confidant of Chancellor Helmut Kohl, he was widely believed to be building a model for German corporations as he changed the troubled metals-mining and trading company into an international

conglomerate. "We are the most foolproof company in all of Germany," he said then.

Schimmelbusch's bold gamble has now failed (table). In December, he was fired as Metallgesellschaft suffered losses for the year of \$1.1 billion—including \$470 million from oil-futures trading—on sales of \$16 billion. With creditors haggling over a \$1.9 billion bailout on Jan. 12, Germany's 14th largest industrial group teetered on the brink of becoming that country's largest post-World War II bankruptcy.

WEAKNESS. Metallgesellschaft's collapse highlights a devastating weakness in German corporate governance. Like many German blue chips, the company boasted a supervisory board made up of the pinnacle of the country's banking and industrial Establishment. Shareholder-rights groups have long said that the clubby ties among corporate leaders re-

sult in lax oversight. Now, they have some dramatic proof. "The supervisory board and the banks failed to oversee management," explains Ekkehard Wenger, a professor at the University of Würzburg.

Before his fall, Austrian-born Schimmelbusch, 49, was considered a pioneer in Germany's drive to embrace new technologies and rebuild its competitiveness. As CEO, he steered billions of dollars into "green technologies." To accelerate the move away from dependence on metals and mining, he embarked on a relentless acquisition drive. He spent more than \$2 billion on companies he planned to infuse with new materials technology, including Sweden's Dynamit Nobel.

Schimmelbusch, who declined to speak to BUSINESS WEEK for this article, aimed to speed the creation of a global conglomerate by melding Anglo-American financial engineering with German industrial knowhow. He floated hot spin-offs on the Frankfurt stock market and bought and sold assets feverishly. His made-over Metallgesellschaft included 258 companies scattered from Latin America to Kazakhstan and businesses from auto parts to radiators. And though critics questioned the links among his far-flung businesses, Schimmelbusch saw them converging in a high-tech future. "We are a miniature version of Mitsubishi," he expounded in 1990. "With environmental services and materials technology, it will be very dif-



EMPIRE BUILDER: THE CONGLOMERATE'S BUSINESSES HAD DUBIOUS LINKS

THE RISE AND FALL OF HEINZ SCHIMMELBUSCH

MAY, 1989 After helping turn around Frankfurt-based Metallgesellschaft, an \$8 billion mining and trading company, Heinz Schimmelbusch, 44, is named chief executive, becoming one of the youngest CEOs in Germany

JUNE, 1991 Schimmelbusch acquires dozens of companies for more than \$2 billion, including the \$706 million takeover of Sweden's Dynamit Nobel

DECEMBER, 1991 Austrian-born Schimmelbusch is named manager of the year by Germany's Manager magazine as the company continues to expand

DECEMBER, 1992 Recession, plus a flood of cheap metals from the former East bloc generate losses of more than \$150 million

FEBRUARY, 1993 Schimmelbusch announces a \$600 million divestment program to raise cash

AUGUST, 1993 After Schimmelbusch turns to Deutsche Bank for a capital infusion, the bank, which controls 20% of Metallgesellschaft, discovers mounting losses in U.S. trading in oil futures

DEC. 17, 1993 Schimmelbusch is ousted when the company announces a \$1.06 billion loss in 1993 and accumulated debt of \$4.9 billion

JAN. 5, 1994 The new CEO, Kajo Neukirchen presents a plan for restructuring Metallgesellschaft's debt

JAN. 12, 1994 Creditors—including Deutsche Bank, Credit Lyonnais, and 120 other banks—haggle over \$1.9 billion bailout scheme

DATA: BUSINESS WEEK

difficult to make this company unstable."

But Schimmelbusch spoke too soon. As early as 1990, the company's traditional metals business was being slammed by a flood of cheap imports from former East bloc countries, dragging prices down as much as 60%. The prices for the metals cleaned and resold by Metallgesellschaft also dropped precipitously. So while the investments in environmental technology had produced cutting-edge processes to clean and recycle factory waste such as aluminum sludge, it was too early for Metallgesellschaft to reap big gains on the investment.

VISIONS APLENTY. Meanwhile an additional \$600 million bet on high-tech environmental gear to clean up copper and zinc mines began looking like a mistake, as governments backed away from costly regulations. That left Metallgesellschaft as the high-cost supplier in a business that still made up about 40% of its revenues. But instead of retrenching, Schimmelbusch used up liquidity with purchases of Dynamit Nobel and Buderus for \$706 million. "If he hadn't

Did clubby ties on the company's blue-chip supervisory board result in lax oversight?

done the deal, he could have held out longer on the oils-futures markets," says Thomas Michaelson, investment fund manager for Munich-based Parzival.

The beginning of the end came in late 1992, when Schimmelbusch used his skills at financial engineering to book a profit of \$147 million for the year. Critics charged that the profits were generated largely through sales of real estate and other assets. Analysts demanded to know how much of the gain was from operating earnings rather than one-time gains. Schimmelbusch withheld details, claiming all the gains should be considered operating earnings.

To generate quick revenues, Schimmelbusch turned to oil futures and his

U.S. financial subsidiary, MG Corp. That ultimately brought down his house of cards. "Schimmelbusch needed money and a good economy," says Andreas Heine, analyst at Munich-based Bayerische Hypo & Wechselbank, a creditor of Metallgesellschaft. "The company never had money. He tried every method he could to generate it but failed."

Inheriting the mess is Kajo Neukirchen, the CEO appointed by Deutsche Bank. He is likely to slash nearly one third of the company's 58,000 workers and sell assets unrelated to its core businesses. That will bring the company back to a lackluster metals-mining, trading, and engineering company.

Corporate Germany may read the wrong message from the Metallgesellschaft collapse by seeking to avoid risk. Analysts would like to see greater transparency, and they also think heads should roll at the company's supervisory board. But they won't. Germany Inc. would sooner rally together and pick up the pieces of Metallgesellschaft than look at its own shortcomings.

By Gail E. Schares in Bonn

...AND THE FLAMES SINGE CASTLE

The oil refiner might be rocked by Metallgesellschaft's risky strategy

Joseph L. Castle II, chief executive of Castle Energy Corp., has been getting a harrowing crash course in international economics. Based in Radnor, Pa., Castle is 40% owned by Metallgesellschaft. A refiner that produces 126,000 barrels of oil a day, Castle is especially vulnerable to Metallgesellschaft's woes because MG Corp., the German conglomerate's U.S. unit, is Castle's only customer. "We're sort of the other side of what happens to them," says CEO Castle. If Metallgesellschaft collapsed, Castle would have a hard time surviving as an independent company.

Castle has been the vehicle for Metallgesellschaft's grand scheme to break into the U.S. energy market. In an effort to become an integrated U.S. energy company, MG took control of large supplies of oil through Castle and marketed it directly to U.S. companies. At its peak, MG supplied 2% of U.S. oil consumption. MG declined comment.

XPANSION BINGE. MG's plunge into the U.S. began in 1989, when it agreed to buy into Castle and finance a huge expansion binge. Castle was then a debt-ridden exploration company largely owned



NEW YORK MERC OIL TRADERS: MG LOST ABOUT \$660 MILLION ON FUTURES MARGIN CALLS

by Joe Castle and his family. By 1993, Castle had bought refineries in Illinois and California. MG then agreed to buy all of their output, guaranteeing a \$5-a-barrel margin to the Illinois refinery and an eye-popping \$10.20 to the California plant through 1998. Most refiners have recently earned gross margins of only \$2 to \$4 a barrel.

Why did MG give Castle such a great deal? MG needed to lock up a source of oil to build its retail business, says Joe Castle. And since MG owned a big chunk of Castle and had invested heavily in it, "they would," by paying Castle handsomely for its production, "be largely repaying themselves," says Castle.

MG's management also had an interest in Castle's success. When MG agreed to act as a standby buyer of oil as a backup

to one of Castle's supply agreements, some MG managers were personally rewarded with Castle stock.

At the same time, Siegfried K. Ho-dapp, then president of MG Corp., was carrying out big plans to make MG Corp. a major oil supplier. To lure customers, MG offered unprecedented monthly guarantees. For example, MG Corp. guaranteed delivery of heating oil at low prices, say 55¢ a gallon, for 10 years. Moreover, if prices rose, the customers had the right to sell all of these now very lucrative contracts back to MG Corp. "There was nothing like it in the size, scope, and length of it," says Castle.

In order to guard against a sharp rise in price, MG had to hedge 10 years, or 120 months worth of obligations with short-term futures contracts, chiefly on

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the New York Mercantile Exchange. The idea was that MG's futures contracts would gain in value if oil prices rose. This would offset any losses from the long-term guarantees to customers and from losses if customers exercised their right to sell back their contracts to MG. **"STUPID POSITION."** The rub was that MG had no hedge against falling prices. Additionally, a supplier that buys futures to hedge against rising prices is also protected if prices fall. What he loses on the futures contract is offset by the fall in the price of the commodity

he must deliver. That only works, though, if the amount of futures matches the amount of the commodity to be delivered. But MG's problem was that it had to buy as many as 120 times as many contracts as it needed to deliver each month to its customers. When prices fell, it gained only a fraction of what it lost in the futures market.

The result: margin call after margin call. All told, traders say, MG lost about \$660 million. In essence, MG was really speculating instead of hedging. "It was a stupid position,"

says Philip Verleger, senior fellow at the Institute for International Economics.

The job of rescuing MG will fall to Karl M. von der Heyden, the former co-CEO of RJR Nabisco Inc., who replaced Hodapp after his resignation as president of MG Corp. on Dec. 20.

Joe Castle is optimistic that MG will honor its commitments to Castle. But he's not kidding himself. "If they keep [control of] their company, we're profitable," he says. "If they don't, we have a lot of work to do."

By Leah Nathans Spiro in New York

ROPE

S DISNEY HEADED FOR THE EURO-TRASH HEAP?

ow, it's fighting bankers to keep the French theme park open

From the moment Walt Disney Co. began planning Euro Disneyland in the mid-1980s, doubts predicted a blasé Europe would wipe the smile off Mickey's face. They were right. But no one expected such a flop that Disney might close the billion theme park near Paris. With the park in deep financial difficulty, that's becoming a possibility. Even in the more likely event that the park stays open, Disney faces a nasty crawl as it tries to work out a restructuring plan with the banks that have lent the project \$3.4 billion.

Because of low attendance and penny-pinching guests during Europe's recession, EuroDisney is out of cash. Disney, which owns 49% of the French company, the public's 51%, has sent emergency funds since November to keep the park afloat. At that time, Disney took a \$350 million write-off on the venture, including \$175 million for the cash infusion.

"WATCH" LIST. The U.S. company threatens to close the park unless lenders restructure its debt by Mar. 31. That's probably more than a negotiating bluff. Disney can't be seen by its stockholders to jump money into a bottomless pit," says analyst Nigel Reed of Paribas Cap-



AU REVOIR, MICKEY? LOW ATTENDANCE HAS TAKEN A TOLL

ital Markets. Already, rating services have put the U.S. parent's bonds on their "watch" lists because of the French park's problems.

Disney's battle with the banks will soon start in earnest. On Jan. 14, lenders were to receive a report they ordered from KPMG Peat Marwick evaluating EuroDisney's prospects. Negotiations will follow. Led by France's Banque Nationale de Paris and Banque Indosuez, the bank syndicate also includes Citibank and Deutsche Bank. Insiders say Disney wants the banks to convert some debt to equity and cut interest on remaining loans, to lighten the park's \$290 million in annual debt service. The banks want Disney to inject new capital, which it's reluctant to do.

So far, Disney seems to have the upper hand. While its image would suffer from a EuroDisney bankruptcy, Disney's direct investment is only the \$160 million that it paid for its 49% stake. The banks aren't eager to become the park's operators. Probably, they'd have to give up the Disney name and cartoon characters, further hurting attendance. If that happened, analysts say, the banks would probably close the park and sell its assets. Given the park's specialized equipment, they would likely lose a bundle.

But lenders do have leverage. Under French bankruptcy law, Disney can't just walk away if it's deemed to be the park's operator. Disney says it isn't, according to its bankers. The banks say it is—and threaten court action to prove it. If they won, bankers think the U.S. company's assets would be at risk in a bankruptcy. "Any judge in Europe would make Disney foot the bill," claims one of EuroDisney's lenders. Disney and EuroDisney executives declined to discuss the financial mess.

PARIS SHRUGS. If the park's backers can find a way to ease the financial burden, a payoff could arrive. The English Channel tunnel's opening in May should bring a flood of British tourists. Help should come, too, from a likely midyear upturn in Europe's economy. Recession held attendance to 9.5 million last year vs. an 11 million minimum for breakeven. EuroDisney lost \$900 million in its year ended Sept. 30, although two-thirds of that was a write-off of pre-opening costs.

However, EuroDisney can't count on a rumored fairy godmother: the French government. Paris has put \$350 million into park-related infrastructure and fears the loss of 11,000 jobs. But it won't invest more, says Claude Villain, state coordinator for the project. "If Disney and the banks see no future, why should we?" he asks. Good question. If EuroDisney's backers can't muster new confidence in the weeks ahead, Mickey may have to hang up his beret.

By Stewart Toy in Paris, with Paula Dwyer in London

A photograph of two young girls with curly hair, wearing matching pink and white striped pajamas. They are standing barefoot and hugging each other. The background is a warm, textured orange-brown color.

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SALINAS WILL PAY DEARLY FOR PEACE

Mexico's bid to heal its wounds will spark deficits—and U.S. doubts

Demolition experts search under the hoods and trunks of cars entering mall parking lots. Trucks loaded with rifle-toting army troops pat the streets of the capital. And foreign executives from such companies as General Electric Co., McDonald's Corp., and several foreign banks have been forced out of their offices twice in the past five days because of bomb threats. If the intent of the rebels in the southern state of Chiapas was to shake Mexico out of their complacency, they succeeded.

Suddenly, Mexico is thrust into a national identity crisis, as the rebellion tears at the country's polished facade of modernity to show the poverty beneath. Debates are now raging over the rebels' charge that the fruits of the economic "miracle" of President Carlos Salinas de Gortari have bypassed the poor. Salinas was forced to reshuffle his cabinet, and he sent a top-level envoy to the jungles of Chiapas to offer an olive branch.

Most of all, Salinas may have to loosen up economic discipline to gain social peace. That could set off a reassessment of Mexico's

stable trading partner by foreign investors. "What Chiapas tells us is that the financial and international institutions that have bankrolled the Mexican strategy have been oblivious to the social consequences of those policies," says Jerome I. Levinson, a Latin American expert at the Economic Policy Institute in Washington. Meanwhile, opponents of NAFTA in the U.S. are watching for human rights slipups. They could use them to wring concessions from Salinas when NAFTA comes up for a review this spring.

No one is predicting that Mexico's hard-won economic reforms will unravel, but that the Institutional Revolutionary Party (PRI), which has ruled for 65 years,

will lose the elections. But the smooth ride for Mexico's leaders is over. After years of giving his technocrats free rein, sometimes with callous disregard for the social implications, Salinas now must send his most skilled politicians into the field to repair the damage.

It extends far beyond Chiapas. Across Mexico's countryside, small farmers are feeling threatened. Even though Mexico won gradual tariff reductions under NAFTA for its most import-sensitive crops, Salinas is eliminating price sup-

KEEPING TROOPS IN CHIAPAS WILL BOOST MILITARY OUTLAYS



ports on corn and beans in 1995. Although temporary cash payments to farmers will buffer them, a flood of cheaper crops from the U.S. is expected to push millions of Mexicans off their farms in coming years.

But the price tag for putting politics before economics could be high. Thanks to strict fiscal policy, Mexico has turned what was a hefty budget deficit in 1988 into a surplus. Now, the ink is about to turn red again. Until the rebellion, military spending had been just 4.2% of government spending. But the 15,000 troops in Chiapas, the beefed-up security in government buildings, and election year spending aimed at stimulating growth could help blow open the budget.

Then there's the open checkbook Salinas will have to show Mexico's poor. The President had already vowed to spend the \$6 billion budget surplus on emergency projects and tax breaks. Billions more may be needed. The Solidarity anti-poverty program has spent \$10 billion over the past five years, largely for running water, paved roads, and health clinics. Now, says one top adviser, poor regions need seed money and aid for more job-producing projects, such as family companies and cooperatives.

THE JITTERS. As Mexico copes with its sudden crisis, it will be looking over its shoulder at the U.S. After months of massive promotion about Mexico's stability, U.S. executives could begin to have second thoughts about setting up shop and courting Mexican partners. Rockwell International Corp., which recently opened an auto-parts plant in Querétaro, is going ahead with plans to triple its staff within a year. But Executive Vice-President Robert Calder admits: "These are situations that test your determination."

The jitters also reached the floor of Mexico City's stock exchange. The Bolsa Mexicana de Valores plunged 6.32% on Jan. 10, after a weekend of hostilities. But it rebounded some on the news of Salinas' Cabinet shuffle and his decision to call off bombing of the rebels in order to start talks. And analysts who have lured billions into the market continued to praise Mexico's prospects.

Even if the markets bounce back, politics in Mexico won't be the same. The two leading opposition parties, the centrist National Action Party and the left-leaning Party of the Democratic Revolution, got a boost from the turmoil, having made economic inequality a campaign issue. But the PRI's candidate, former Social Development Secretary Luis Donaldo Colosio, showed that he heard the message loud and clear. "The events in Chiapas are a call to conscience for all Mexicans," he said. "Social reform and a healthy economy are mutually compatible goals." Along with Mexicans of all stripes, the world will be watching to see just how the PRI intends to prove it.

By Geri Smith in Irapuato, with Douglas Harbrecht in Washington



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NOW, FOR CLINTON'S NEXT EUROPEAN TRICK . . .

By many measures, President Clinton's first trip to Europe was a hit. The jittery European allies warmed to his youthful vigor and his assurances that he was not going to ditch them in favor of faster-growing Asian markets. "Everybody was impressed by the strong leadership and personal conviction of the American President," says NATO Secretary-General Manfred Wörner.

But Clinton is kidding himself if he thinks that having uttered the right buzzwords in Europe, he can go home and be strictly a domestic President. In the uneasy aftermath of the cold war, the former Soviet Union and its onetime satellites are a jumble of flash points, and Western Europe is more volatile than it has been in decades. Despite sharp troop cuts in Europe, only the U.S., it seems, has the credibility to make big decisions on shaping a new political and economic order.

Indeed, before the trip, the Western Europeans were clamoring for U.S. leadership, while Eastern Europeans were almost begging the West for protection from their own ethnic quarrels and a more assertive Moscow. Clinton's arrival on the Continent almost magically calmed everyone and got them acting like adults again. Now, Clinton aides say he'll be spending more time on Europe in the future. At least two more visits are scheduled for 1994—a good thing, since getting the deals that were struck on the trip to work will require continued high-level U.S. commitment and attention.

TRICKY STEP. Already, Ukraine is waffling on the promise it gave Clinton to scrap its nuclear weapons. More important, Clinton is going to have continuing problems striking a balance between Eastern Europe and Russia. His invitation to such former Soviet satellites as Poland and Czechoslovakia to begin participating in joint NATO exercises could open a huge Pandora's box. True, it was a nice try at soothing Eastern Euro-

pean fears of Moscow without stirring up Russian paranoia of a new anti-Moscow alliance. But the ultranationalist Vladimir V. Zhirinovskiy will still use any NATO presence near the Russian borders to whip up anti-Western feeling in his battle to displace President Boris N. Yeltsin. And some analysts wonder whether this "partnership for peace" Clinton sold the Europeans could turn into a dangerous first step toward committing NATO to defending Eastern Europe.

Indeed, there could be a price down the road for many of the pledges Clinton used to please his audiences. The U.S. is now on the hook to keep about 100,000 U.S. troops in Europe indefinitely—vs. the 50,000 to 75,000 expected before. Clinton also committed U.S. sea-lift, airlift, and intelligence units assigned to NATO to Europe-only peace-keeping missions. And he edged perilously closer to entanglement in Bosnia by backing Anglo-French calls to plan air strikes there. All this is occurring against a background of political flux in Western Europe, where growing public discontent is jeopardizing many leaders, including Germany's Helmut Kohl.

Of course, with such gestures as a visit to a Kmart in Prague, the indomitable Clinton did also try to get across his now well-known message that economics should get more consideration in foreign policy. He chided the Western Europeans for shortsightedly closing their markets to Eastern European products. While previous Presidents tended to assess the situation in Europe in terms of numbers of troops, tanks, and planes, Clinton says that economic growth in Russia and Eastern Europe is the key to beefing up democracy and security. It's a grand vision. After this trip, Europeans are going to be looking to Clinton to make it work.

By Susan B. Garland in Prague, with Peter Galuszka in Moscow, Patrick Oster in Brussels, and Bill Javetski in Paris



HONK IF YOU'RE FOR EUROPE

GLOBAL WRAPUP

THE LDP SAVES HOSOKAWA

A sharp change of course by Japan's Liberal Democratic Party has given Prime Minister Morihiro Hosokawa a new lease on life. The LDP, which was ousted from power last summer, had bottled up Hosokawa's political reform bills has vowed to pass in the upper house. Now, the LDP says that it will let the legislation proceed and has muted its criticism of the Prime Minister for taking questionable loans. That gives Hosokawa a good shot at getting the bills passed by Jan. 29 as promised. If so, he would be a good bet to stay in office until new elections, which could be held anytime

from this summer until 1995. In return for backing off, the LDP is likely to gain concessions that give added political clout to its rural strongholds.

CHUNNEL TOLLS

Eurotunnel Group has declined to fire the first shot in a cross-channel price war. On Jan. 11, it unveiled higher-than-expected fares for passenger travel through the Calais-to-Dover tunnel. Round-trip fares for cars will start at \$326, rising to \$459 during the summer, excluding short-term specials. That's vs. \$327 to \$428 for ferry rides. Some analysts still predict a fare war later this year, as the Chunnel steals passengers from airlines and ferries.

With nearly \$14.8 billion in construction costs to amortize, they figure, it could come under pressure to add trains and slash fares. The first paying passengers will make the 27-minute trip on May 8—two months after freight services begin.

A PORT GROWS IN GAZA

The Netherlands has agreed to finance and build a floating port in the Gaza Strip—an installation the Palestinians very much want, because it would help boost their independence. The \$51 million project could open in 1995—if the Israelis and Palestinians are successful in wrapping up their agreement.

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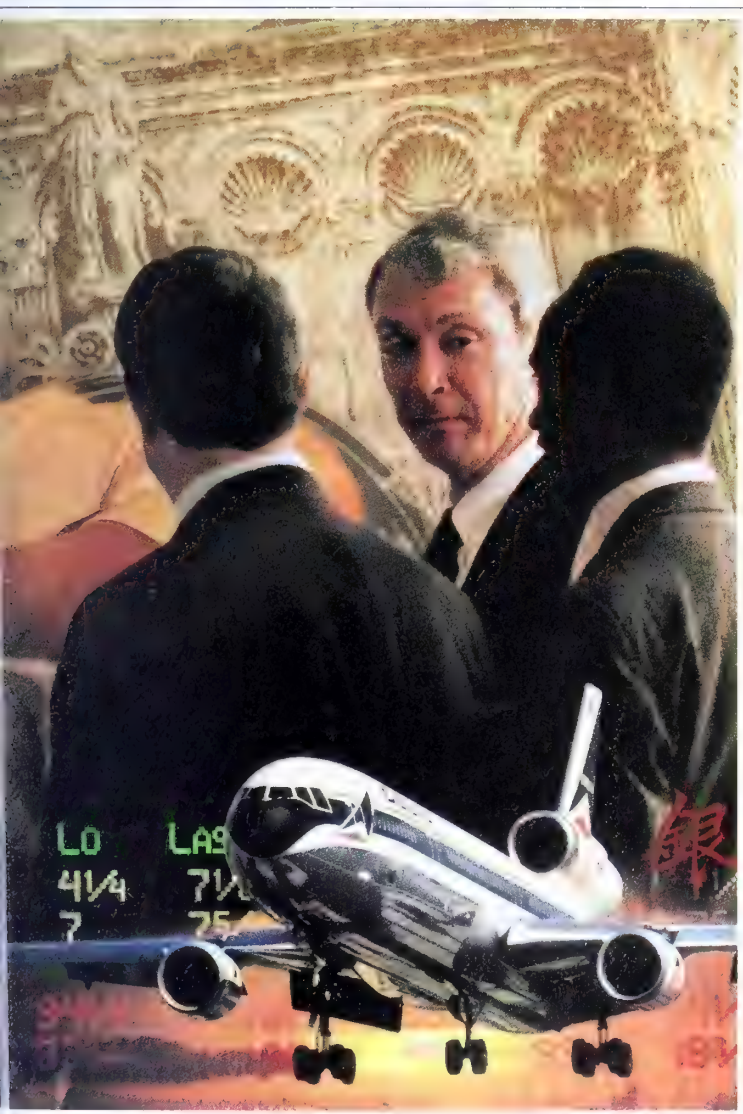
The background features a financial table with the following data:

Region	Value	Change
Americas	104.30	+ 0.01
Canada	107.12	+ 0.10
U.S.	105.14	+ 0.10
Europe	115.85	+ 0.12
France	124.86	+ 0.50
Germany	117.00	+ 1.00
Italy	139.08	+ 1.10
Netherlands	127.72	+ 0.65
Spain	121.75	+ 0.34
Sweden	111.41	+ 0.58
Switzerland	125.35	+ 0.58
Asia/Pacific	107.46	+ 0.31
Australia	109.96	+ 0.39
Hong Kong	99.23	+ 0.40
Taiwan	177.48	+ 0.57
Malaysia	110.05	+ 0.57
Singapore	118.54	+ 0.57
New Zealand	99.23	+ 0.40
Asia/Pacific	177.48	+ 0.57

Other visible text includes:

- SALES 100S
- 72227
- 52000
- 57888
- 11001
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R&D, WITH A REALITY CHECK

Consortium MCC fosters more results-oriented research

Not long after George H. Heilmeier landed in Arlington, Va., in 1975 as head of the Defense Advanced Research Projects Agency (DARPA), he gave one of his managers an ultimatum: Go to "charm school" and learn to deal less brusquely with people, or look for another job. Craig I. Fields took the advice and spent weeks acquiring more social polish. It made a difference, Fields's friends say—but eventually not enough.

After Heilmeier moved on, ultimately to run Bell Communications Research Inc., Fields became DARPA's director. He early favored a more activist role for the government in bolstering U.S. competitiveness. So the Bush Administration's hostility toward any hint of industrial policy was commonly blamed on Fields's demotion and transfer to another arm of the Pentagon in 1990.

culture with liberal doses of no-nonsense management. At the behest of the companies that own MCC, he has given the consortium's research programs a timetable, complete with interim goals and regular reviews. He has also put a higher priority on market-oriented projects. And he has created MCC Ventures Inc., a subsidiary that helps spin off MCC discoveries into startup companies. What he has to show for all this isn't much so far: Though the consortium's membership is increasing, some big companies such as Boeing, Lockheed, and NCR are pulling back. As a result, MCC's funding has dropped 27% since Fields' tenure began, to about \$40 million. And plenty of people are angry.

"RAW DEAL" Part of the problem is that old bugaboo, people skills. Laszlo A. Belady, a former MCC program director who now heads Mitsubishi Electric Re-

whose dues underwrite research are "getting a raw deal," Rich asserts.

Fields sympathizes with the current and former researchers who are bitter about MCC's transformation. "Culture change is always very, very hard," he says. But he's sticking with his new priorities. Most of the tax on traditional projects, for instance, goes into what Fields calls a renewal fund that pays for keeping tabs on technology trends and organizing research projects that will win backing from at least five member companies. Currently being considered are programs to develop new optoelectronics systems and "smart" software for detecting financial fraud. "When I came, we weren't spending enough on the future," says Fields.

That was odd, considering the atmosphere in which MCC was founded by a dozen computer and electronics companies in 1982. A response to Japan's then vaunted Fifth-Generation Computer Project, the consortium was to be the place where U.S. high-tech companies would

HOW CRAIG FIELDS IS REVAMPING MCC

TIGHTER FOCUS

He has shifted research to concentrate more on market-driven technologies needed by member companies and their customers. Each program now has a timetable, with interim goals and regular reviews. MCC will even customize technology for members.

WIDER MEMBERSHIP

Customers and suppliers of MCC members are being courted. The Limited is the first to join. Fields has also signed up Andersen Consulting, which is helping channel MCC-developed technologies to its clients and recruiting new members.

BROADER SCOPE

Fields conceived MCC Ventures Inc., a venture-capital subsidiary. So far four companies have been spun off from MCC. MCC Ventures has also brought in two more—handling their administrative chores so they can concentrate primarily on development work.

Washington insiders say, however, that the real cause was a personality clash between Fields and his bosses, including Donald J. Atwood Jr., then a Deputy Defense Secretary.

Fields's sporadically abrasive style is still causing eruptions—these days at Microelectronics & Computer Technology Corp. (MCC), the 103-member electronics-industry research group he took over in July, 1990. Brought in to revitalize the stagnating Austin (Tex.) consortium, Fields has infused its almost academic

search Laboratories Inc., says he resigned 10 months after Fields arrived because he "had zero touch for people or how to motivate them." Combine that with a 22% cut in staff, to 350 employees, and "morale is subterranean," says one former manager who was asked to leave. Elaine A. Rich, who headed a \$1.1 million software-development effort until she quit last June, complains that current research is hobbled by a "tax"—up to 20% of projects budgets—that funds work on future programs. Companies

collaborate on long-term research that would head off the Japanese. For many scientists, it was a dream come true: Some referred to it as "the celestial sandbox of computer science."

That description unintentionally pointed up MCC's big weakness: It didn't produce much that its members used. Funding peaked at \$67 million three years before Fields was brought in with a mandate to shorten to two years programs that were scheduled to last up to 10. Even Fields thought that was



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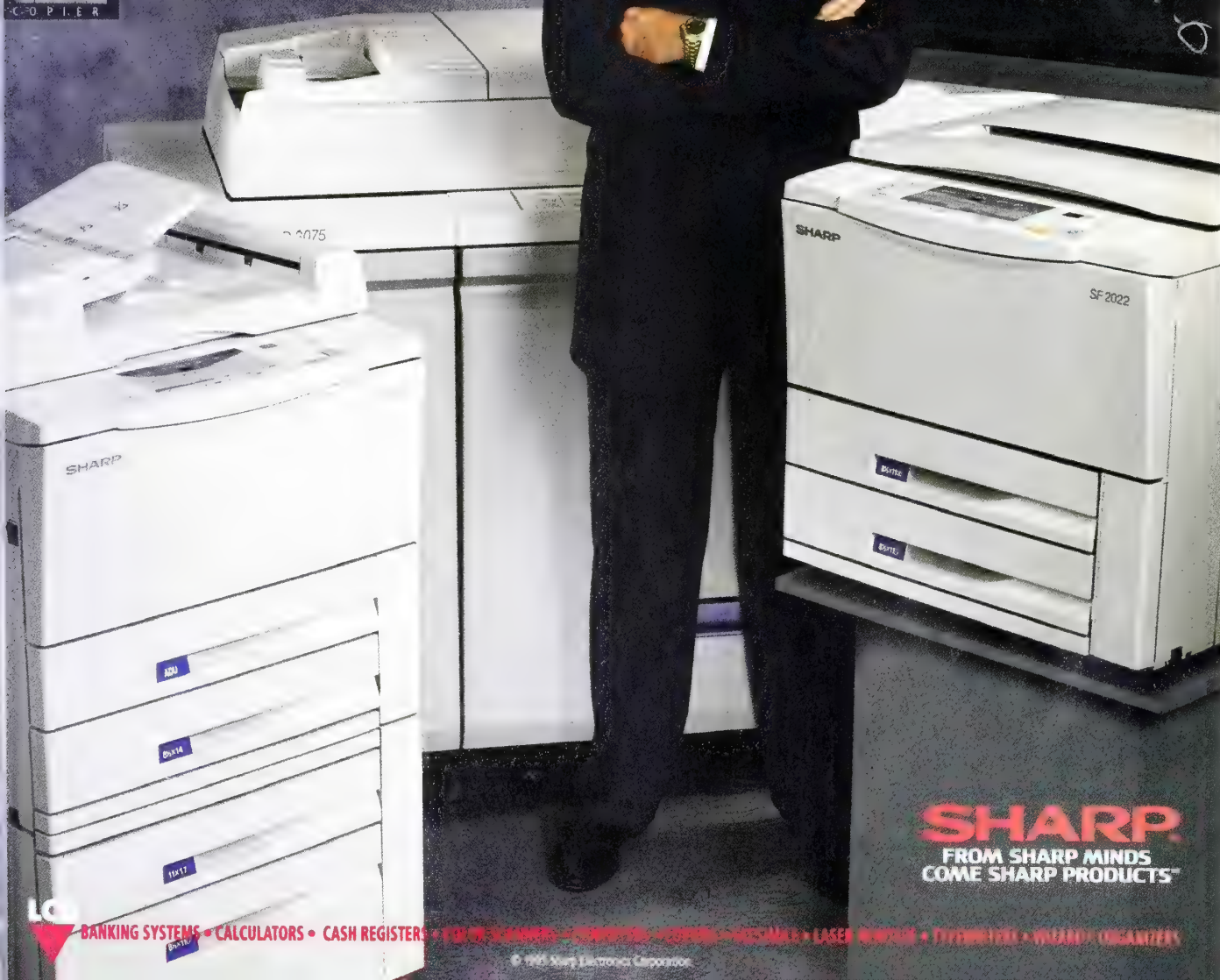
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drastic. But he adds: "Someone has to worry about reality." Things could have been worse, in fact, had MCC not gotten 30% of its revenues from government sources last year—up from zero in 1987. Two years hence, Fields says, government money could represent half of revenues. But he doesn't want it to exceed that politically sensitive level.

To avoid that, Fields has won his board's approval for a plan he hopes will create a new MCC, bolster the competitiveness of the U.S. electronics industry, and serve as a model for future research organizations. Part of this strategy calls for focusing research more on customer needs. That way, MCC should deliver technology that members can rapidly introduce in their markets. Another key element is developing the electronic infrastructure for virtual integration—a telecommunications system that lets MCC members and their suppliers and customers form so-called virtual corporations that span all levels of industry, from manufacturing to retailing. It's called the Electronic Integration Net-

Fields contends that MCC research should be graded, in part, on what it contributes to U.S. competitiveness

work. EINet is already being field-tested and could be spun off this year.

The latest tool for getting MCC technology to market is MCC Ventures. Its startup companies are staffed by MCC researchers who would rather try to make their work the basis of a successful company than see it languish on the shelf. One example, Tamarack Storage Devices Inc., was spun out with MCC backing in late 1992 to pioneer a system for storing computer data in holographic crystals. The technology promises digital storage systems with prodigious capacities and the ability to transfer data at rates up to 1,000 times as fast as today's storage systems. "If there's anything that MCC will do that will change the world, it will be holographic storage," says a former MCC executive.

Fields argues that MCC Ventures will get technology to market faster, generate royalties for MCC, and keep good research from going to waste. That happens often, he says, because "it costs 10 to 100 times more to get business success from technology than it does to get the technology." Fields also contends that MCC should be graded not only on

the research it delivers but also on what the research contributes to U.S. competitiveness. So if MCC members don't exploit its research, then MCC Ventures should try. "That gives our members more options—at no extra cost," he adds. "Previously, they got research. Now, they also get preferential access to new products and services"—either exclusivity for a time or price discounts.

While these initiatives have produced little so far, they still have broad support. "Craig has done an outstanding job at holding the place together," says Heilmeier of Bellcore, an MCC shareholder. Deborah Wince Smith, a senior fellow at the industry-funded Council on Competitiveness in Washington, is especially keen on MCC Ventures. "Craig has a commitment from the members to be customers for the startup firms," she says. "That's important, because you reduce the risk tremendously."

The main criticism even friends level is of Fields's tendency to be a fanatic about his visions—which is evident in his private life. Now a trim, fast-talking 47, he recalls being "incredibly overweight" during his student days at Bronx High School of Science. "Being spherical," he recalls, "tends to affect your social outlook." It caused him to focus on bookish pursuits and may have contributed to what associates say is his sometimes intimidating disdain for intellectual laxity. He determined to slim down before going off to Massachusetts Institute of Technology, where he earned his undergraduate degree in physics in three years. After getting a PhD from Rockefeller University in 1970, he taught computer programming at Harvard University before joining DARPA in 1974.

DIFFERENT APPROACH. Supporters such as Arati Prabhakar, the new director of the National Institute of Standards & Technology and a Fields protégé when they were both at DARPA, hope that Fields will surmount the current controversies within MCC so that other research organizations will see the value of its approach. "Virtually everything Craig does derives from a conviction that it's important to try to make a difference," she says. To Fields, that means restoring American preeminence in electronics.

There's one sign that he is moving in the right direction—personality conflicts notwithstanding. Each year, MCC sends a customer-satisfaction survey to its members. The results drifted steadily downward in the late 1980s. But things have been looking up since Fields took over, and the survey covering 1993 produced the highest rating ever, he says—a score of 3.9 on a scale of 5 from the companies he's paid to please.

By Otis Port in New York and Peter Burrows in Dallas

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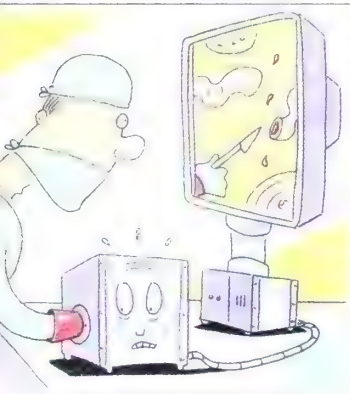
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Developments to Watch

EDITED BY CATHERINE ARNST

VIRTUAL SURGERY FOR DOCTORS IN TRAINING



There is no medical specialty as rigorous as surgery. Surgical interns are required to take thousands more hours of training than general practitioners, and they must continually learn new techniques. A Woburn (Mass.) company hopes to discover whether computer-generated "virtual" environments can speed up the education process.

Under a \$100,000 contract from the Advanced Research Projects Agency, Exos Inc. is developing a surgical training tool that consists of a robot gripper inside a box, plus software that creates simulations of body organs on a computer screen. When a trainee inserts a scalpel into the box, the robot grabs it, sensing the human's hand movements and projecting them onto the computer screen, where the virtual scalpel and body parts are displayed. The point is to recreate the feel of an actual operation. As a trainee slices through tissue on the screen, for example, the robot slows the scalpel down. Hit a bone, and the robot stops the scalpel. ARPA hopes to use the simulator to train military doctors.

MINI ELECTRONIC TOOLS THAT WORK IN TIGHT SPOTS

As sophisticated electronic components proliferate in everything from aircraft to telephones, so does the need for a convenient way to repair and maintain them. That's not so easy, considering that the test and measurement tools needed are usually table-size machines that tend to be as complex as the components they are meant to fix. So Tektronix Inc. in Wilsonville, Ore., has shrunk the tools. Using low-energy microprocessors, it has come out with the TekTools line of "intelligent" handheld electronic oscilloscopes and other measurement devices that work like the old benchtop devices: They automatically find electronic and electrical signals and then display them on a backlit screen, allowing technicians to visualize problems on-site. The tools weigh about two pounds, run on standard batteries, and cost from \$859 to \$1,259, compared with about \$2,300 for their larger cousins.

NOW, LOVERS OF BAROQUE MUSIC CAN PLUG IN A PERSONAL COMPOSER

First there was J.S. Bach, the composer. Then, there was his son, C.P.E. Bach, the composer. Now, there's C.P.U. Bach, the software. C.P.U. Bach composes Baroque-style music that resembles the works of the flesh-and-blood Bachs. The program, from MicroProse Software Inc. in Hunt Valley, Md., will run only on the new 3DO Interactive Multiplayer, a super-up video-game machine with CD sound from 3DO Co. in Redwood City, Calif.

C.P.U. Bach was developed by MicroProse designers Sid

Meier and Jeff Briggs, who has a doctorate in music theory. It plays concertos, fugues, minuets, and chorales according to the strict compositional rules of those genres. One part of the software generates a melody, another does harmony, another does counterpoint, and a fourth chooses the overall form of a piece. The parts interact and make decisions as the music plays, so no two compositions are alike. One drawback: Listeners don't have much control. You can specify that you want a preponderance of a certain instrument or genre, but you can't, say, feed the program a few notes as the basis for an improvisation. The \$70 software is due to debut in February.

FROM A HAPPY ACCIDENT, A STAR MATERIAL IS BORN

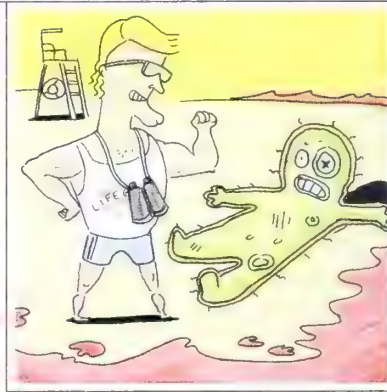
Last year, Ohio State University announced that a screw-up by one of its undergraduates had created a superstrong, lightweight material. Now, the university is trying to convert serendipity into cash by working with auto manufacturers and electronics companies that would like to use the material, known as Co-Continuous Ceramic Composite, or C⁴.

C⁴ came to life in 1990, when undergraduate Michael Breslin accidentally let a ceramic container full of aluminum heat up far beyond aluminum's melting point of 660C. The ceramic became saturated with aluminum. It proved to be strong but not brittle, good at conducting heat, wear-resistant, and only about half the density of steel. Plus, its ingredients are cheap: Silica for the ceramic is only about 70¢ a pound, while aluminum runs \$1 a pound.

An Ohio State team that includes Breslin, now a graduate student, is working with General Motors, Ford, General Electric, Cummins Engine, and others to design and test components made from C⁴. Breslin says the composite can be modified for particular jobs—for example, to provide extra wear resistance in a brake rotor. Ohio State materials scientist Glenn Daehn says C⁴ could start appearing in cars by 1997.

SAFER TRANSFUSIONS IN THE AGE OF AIDS

While blood safety has greatly improved in recent years, current testing still cannot completely eliminate the chance that the virus that causes AIDS will be transmitted during a transfusion. But researchers at the New York Blood Center and New York University Medical Center say recent lab experiments have found that the antiviral compound hypericin is able to inactivate completely HIV in whole-blood supplies with no adverse effects on blood chemistry. VIMRX Pharmaceuticals Inc. in Stamford, Conn., which makes hypericin, says the compound is being tested to determine if it can also inactivate a broad range of other blood-borne viruses, such as hepatitis and cytomegalovirus, which can cause severe disease in newborns. Phase I trials have already shown hypericin to be safe in humans when transmitted intravenously, and VIMRX says it plans to apply for Food & Drug Administration licensing in 1995.



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THE SECOND YEAR

CLINTON WEAVES A SECURITY BLANKET FOR AMERICA



Americans should have the courage to change.

—Bill Clinton, 1992

If any one phrase accounted for Bill Clinton's election victory, it was his plea that recession-weary Americans reject Republican economic lassitude in favor of renewed government activism.

But to the dismay of traditional Democrats—and the relief of Corporate America—President Clinton's freshman year was anything but revolutionary. Clinton installed fiscal conservatives in key economic posts. He watched as his \$6.3 billion economic-stimulus package got stomped on Capitol Hill. And his biggest legislative triumphs—bruising fights for a \$433 billion deficit-reduction plan and the North American Free Trade Agreement—seemed a continuation of GOP policies.

The party faithful, who think Clinton has abandoned his *Putting People First* campaign blueprint for something called *Boomer to the Bond Market*, couldn't burn their membership cards just yet. The President has begun to couple his "Change Now" message with the promise of great security."

Poring over his polling data, Clinton has discovered that Americans are in the throes of a national anxiety attack over crime, corporate downsizing, and a vexing health system. As Year Two of his Presidency begins, Clinton has done a little strategic repackaging. He has fashioned his domestic programs into a new security blanket that promises to catch the victims of change as they tumble down the economic ladder. With money tight and business skittish about onerous social mandates, however, he had to craft a package whose economic impact will be dwarfed by its fuzzy glow.

POLICY GRAFTS. For Clinton, the transforming event was last year's bitter NAFTA fight. White House pollster Stanley B. Greenberg says the divisive battle showed that the public is far from ready to buy the notion that a global economy means rising living standards. "People still believe, by a significant margin, that trade costs jobs," Greenberg notes. The message for policymakers is clear. As Laura D'Andrea Tyson, head of the Council of Economic Advisers, puts it: "People who are insecure may not have the courage to change. They need new tools to provide security." Indeed, a new BUSINESS WEEK/Harris poll shows that 67% of the public be-

**SURPRISED BY
THE NAFTA
BRAWL, CLINTON
SAYS PEOPLE
NEED HELP TO
ACCEPT CHANGE**

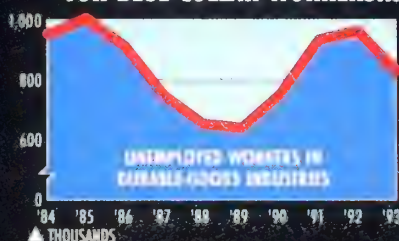


CONFRONTING AMERICA'S ANXIETIES

ILLNESS INCREASINGLY CAN MEAN FINANCIAL RUIN...



...JOBS ARE DISAPPEARING FOR BLUE-COLLAR WORKERS...



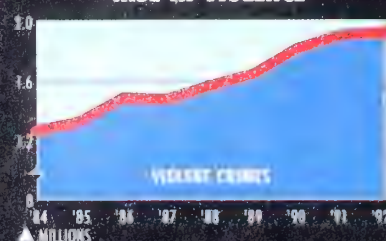
...AND MIDDLE MANAGERS...



...AMERICANS ARE THREATENED BY PENSION DEFAULTS...



...AND A FRIGHTENING RISE IN VIOLENCE



believes that the U.S. must change its policies to provide more economic security (page 80).

All summer, Clinton brooded about the politics of insecurity. During his vacation on Martha's Vineyard, he sketched out some unifying ideas. The goal was to make the prospect of dizzying change less threatening to union members, seniors, and minorities—while still luring baby boomers and suburbanites with the banner of opportunity.

The result is one of those policy grafts for which Clinton is famous. Although he still couches his economic vision in terms of optimism, security will be an important motif in the President's State of the Union message on Jan. 25. When he speaks to Congress and the nation, Clinton will signal a shift from the gritty business of deficit-cutting to the more palatable task of investing in "human capital."

SHOOTING SPREES. The apostle of change has designed the security blanket around a massive new middle-class entitlement: legislation, drafted last year, that would guarantee all Americans lifetime health care. Expanding from there, Clinton stitches together a host of federal programs into a patchwork quilt. The package includes a system of continuous learning and retraining, a government drive to promote new high-tech industries at home while prying open markets abroad, even a "personal security" plan promising to protect citizens from gun-toting thugs.

The anticrime measures were woven into the security fabric only recently, spurred on by public horror over a string of violent shootings and kidnappings. Mostly, Clinton's programs try to boost an economy he feels is still growing below potential. Clintonomics I dealt with curbing a recession-swollen deficit. Clintonomics II aims to lock in the expansion by bombarding a host of "structural" problems with targeted injections of federal cash.

"Targeted" is the key; it's Demospeak for "small." Firm caps on spending mean that little new money is available. So Clinton may shift up to \$15 billion a year into a new "investment budget." The transfer would dig into transit programs, community development block grants, low-income energy assistance, and other domestic programs. The cash would go to Head Start, elementary and secondary education grants, and college tuition aid. Meanwhile, the Labor Dept.'s training, vocational education, and apprenticeship system will be broadened and redesigned for more flexibility. Says National Economic Council chief Robert E. Rubin: "We're putting in place a

strategy to get the economy on a track for long-term growth."

The prime mover behind the Administration's "investment" strategy is Labor Secretary Robert B. Reich (page 74). His idea of small-scale investment spending won support from Rubin, Treasury Secretary Lloyd M. Bentsen, and other moderates. Still, they fear that too much meddling on the Reichian security theme will undercut Clinton's change message. "It sounds like we're going to protect everyone from ever being laid off," complains a senior White House official. "That's standpattism."

Clinton leans toward Reich's contention that unless workers feel the government is trying to halt the erosion in their earnings, they could lurch toward protectionism, nativism, or xenophobia. The tittle over how much to promise is likely to rage until the last minute. "None of us is going to get sorted out until we all sit in a room the night before the speech

and turn it into a frat house scene full of screaming people," grins political adviser James Carville. Clinton will choose his state of the Union framework as he drives up Pennsylvania Avenue on 25th.

Regardless of how prominent the security concept is, business cannot find the first installment menacing. Many of the Administration's ideas, such as upending vocational training, have echoed through boardrooms for years.

Longer-term, corporate leaders worry at what began as a small notion of the Secure Society will mushroom into something grander. "The big fear is that the push for security will drive up costs of health, pensions, and training," says Harry J. Jasinowski, president of the National Association of Manufacturers. Ultimately, that will create more pressure for reducing employment."

Clinton has tinkered with his blueprint to make it more business-friendly. With the exception of a regulation-heavy health plan that's widely disliked by small employers, he's playing it safe by concentrating on pilot projects. He also fires the promise of a government cushion with the demand that aid recipients assume greater responsibility for their own actions. "Security's a nice word," muses Carville. "I prefer the idea of mutual obligation."

As they add the finishing touches to their plan, Clintonites are anxious to dispel the notion that their new security

web will grow into a European-style safety net (page 78). Reich insists that it will function more like "a trampoline. We want a system that helps people with their own energy bounce back to where they were before."

That, critics charge, is precisely what's wrong with the whole conceit. "This is emblematic of paternalistic liberalism, which does not treat citizens as self-governing but as befuddled victims," scoffs GOP strategist William Kristol. Agrees Republican pollster Frank I. Luntz: "I hate it. It reminds me of pre-Thatcher Britain. But security is a strategic home run for Clinton."

Despite partisan sniping, Clinton is pushing ahead. Although final decisions await his return from Russia, here's how major components of Year Two's package are shaping up:

■ **Health security.** Whether the U.S. is in the throes of a health-care "crisis," as the President claims, is debatable. But there's no doubt that something fundamental is amiss. Some 38.5 million Americans lack health insurance, while others remain wedded to jobs they dislike for fear of losing benefits. Many small employers can't afford coverage. Worse, the U.S. spends far more on health care than other industrial nations.

To tackle these problems, the President and Hillary Rodham Clinton are prescribing their Big Fix. By 1997, they would cover all Americans with a standard benefits package. Large employers would have to pay 80% of the cost of insuring workers. Most Americans will buy coverage through regional purchasing syndicates that would bargain to keep costs down.

Opponents of the Clinton scheme focus on its optimistic funding assumptions, bureaucratic rigidities, and employer mandates. "This plan will be funded on the backs of small business, the job creators," fumes Jack Faris, president of the National Federation of Independent Business. Even some leading Democratic economists are worried. Says Lester C. Thurow of Massachusetts Institute of Technology's Sloan School of Management: "The Europeans have taught us that [mandated benefits] end up pricing labor out."

Thurow's fears could be overstated: The White House lacks the votes for anything as sweeping as "Hillarycare." The President will insist on movement toward universal coverage, but he will give

CLINTONOMICS I

Competitiveness in the world economy and economic security at home—that's Clinton's national vision. Some key elements of his plan to boost America's skill base while shielding people from the harshest side effects of international competition:



HEALTH SECURITY

- ▶ Lifetime health insurance for all; 80% of workers' premiums paid by large employers, not exceeding 7.9% of payroll
- ▶ Big purchasing co-ops that bargain for the most economical care would serve most Americans





PENSION SECURITY

Require employers to increase their contributions to ensure adequate funding of existing defined-benefit retirement plans

Encouragement of pension "portability" give workers greater flexibility in changing jobs or careers



EDUCATION & TRAINING

► "Lifetime reeducation" as a goal, fostered by voluntary national education standards, more funds for public schools, and direct federal college loans

► Improved vocational and apprenticeship programs for the noncollege-bound

► Revamped employment programs to help workers cope with rapid job market changes



COMPETITIVENESS POLICY

► More seed money to promote private development of promising technologies and to help manufacturers put the latest methods to work

► Technical assistance and new financing to help small and midsize exporters sell to emerging overseas markets

► Aggressive negotiations to open markets in Japan, China, Latin America, and elsewhere

PERSONAL SAFETY

► Mandated tough minimum sentences for violent criminals

► Funds for "community-based" policing that will put 100,000 new officers on the streets

► Stiff new license fees for gun dealers; possibly national registration for handgun owners

DATA. BUSINESS WEEK

ound on the employer premium share, benefits package, and other details. **Skills security.** To soothe Americans' angst over finding and keeping a good job, Clinton is pushing a Reichian plan that would overhaul federal education and training programs. Funding would be for a Labor Dept. "school-to-work" scheme that targets up to \$300 million to improve vocational education. Support for the Education Dept.'s Goals 2000 program, which aims to set up national education targets, would quadruple, from \$105 million in 1994 to \$422 million for fiscal 1995. Trouble is, Clinton seems joined at the hip to National Education Assn. lobbyists, which prevents him from backing tough standards. And Goals 2000 doesn't address what experts believe is a key problem: huge inequities between rich and poor school districts.

The big noise, naturally, will come out of Reich's shop. He'll unveil legislation to streamline the Labor's employment system, eliminating separate programs to help workers hurt by foreign competition, a shrinking defense sector, or environmental regulations. Another pilot project will create "one-stop" reemployment centers where counselors would assess applicants' skills, look for leads from a national jobs data bank, or steer workers to the Job Corps and other training programs. At budget constraints will keep funding for Reich's training agenda and companion Education Dept. programs at around \$2.5 billion to \$3 billion next year.

Political prospects are enhanced by the program's broad focus. In the past, the government's training efforts centered on disadvantaged youth. The Administration is seeking to target aid to all workers in the belief that most employees will need constant training in the new knowledge economy. Experts agree. "I see change and insecurity as inescapable," says Anthony Carnevale, chief economist for the American Society for Training & Development. "You need reemployment systems for all Americans." Critics of Reich's plan span the left and the right. "The Administration is under terrible budget constraints it created by championing deficit reduction," complains Jeff Faux, president of the liberal Economic Policy Institute. Former Bush domestic aide James P. Pinkerton says

the government spends \$22 billion on dozens of programs and still can't match retrained workers with jobs. "Every training program without exception has been a failure," says Carnegie Mellon University economist Allan H. Meltzer. Still, in an election year, Congress is all but certain to pass the package.

■ **Pension security.** In 1992, corporate funding of retirement plans fell \$53 billion short of projected needs, up from a \$38 billion shortfall the previous year. That has led the Labor Dept. to seek legislation that will require companies to shore up pension plans and give workers early warning of financing problems.

Prodded by Senator Bill Bradley (D-N.J.), the White House is also weighing new measures to assure pension "portability." Bradley plans hearings on ways to ensure that workers who change jobs can take their pensions with them. Treas-

structure. And funding for high-tech research is set to rise across the board. Clinton will ask Congress for a \$480 million increase in the Commerce Dept.'s \$3.6 billion budget. Half of that would go to the Advanced Technology Program, which awards research grants to companies developing new technologies. The new money would give ATP \$451 million for 1995, up from \$68 million in 1993. By backing technologies such as flat-panel displays, handwriting-recognition systems, and advanced computer memories, Clinton's techno-wonks hope to speed U.S. industry's efforts to gain a competitive advantage.

An additional \$35 million would double funding for manufacturing extension centers, which are designed to give small and midsize companies access to new production methods. And the Commerce Dept.'s defense conversion program will get \$60 million, on top of \$80 million now, with most going to a swooning California. "The Administration is off to an outstanding start with technology policy," says George M.C. Fisher, CEO of Eastman Kodak Co. and former chairman of the U.S. Council on Competitiveness.

Clinton may get a bigger bang, however, from assertive export-promotion and market-opening measures. The White House has been butting heads with the government of Japanese Prime Minister Morihiro Hosokawa to gain "measurable" results on market access for a host of U.S. goods and services, from farm products to auto parts to insurance. Thus far, Japan hasn't budged much. The bottom line: The President's technology initiatives will find a warm welcome in Congress, but only years of constant battering will produce much in the way of measurable progress with Japan. No one knows if Clinton, whose international credo seems to be to speak loudly and carry no stick, is up to it.

■ **Personal security.** When the media began to focus on what was portrayed as an epidemic of violent crime, politicians' radar screens lit up. Clinton reacted more nimbly than many Republicans, who seemed complacent in the belief that Americans loved guns more than they hated crime. As a result, the Administration has put the GOP on the defensive with a bill that seeks to put 100,000 new cops on the beat and stiffen sentences for habitual offenders.

Clinton's preemptive strike on crime



"HILLARYCARE": UNIVERSAL HEALTH COVERAGE IS THE SECURITY PLAN'S LINCHPIN

sury's Bentsen likes the portability concept but is nervous about the cost of new pension mandates. The outlook: slow movement toward modest reforms, partly because the Senate Finance Committee is tied up handling health care.

■ **Competitiveness policy.** While most Clintonites won't utter the words "industrial policy," that's what they are practicing. Whether it will boost incomes and make people feel more secure in their careers is still unclear, however.

At home, the Administration is subsidizing advanced research that promises a commercial payoff. Already, the government has entered into a 10-year collaboration with the Big Three auto makers on new clean-car technologies and is studying ways to boost U.S. consumer-electronics manufacturers.

The White House is also developing a plan for a national information infra-



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may be seen by some as political expediency. Indeed, according to surveys taken by GOP pollster Ed Goeas, fear of crime has become the No. 1 source of public insecurity, picked by 28% of respondents. "The security of being able to walk down the street without someone hitting you over the head doesn't sound like an [unreasonable] entitlement to me," says Harvard University economist Benjamin Friedman.

There are doubts aplenty about the efficacy of Clinton's security blanket. And others caution that he risks raising expectations too high. But as a political gambit, the President's attempt to meld his disparate programs into a caring connoisseurship to Reaganism can't be faulted. To appreciate why, look at the angst Clinton's security offensive has caused in GOP ranks. "The thrust of this program is political," grouches Theodore Arrington, a Republican political scientist at the University of North Carolina at Charlotte. "It ties Reich's ideas, health care, and crime up into a nice little bow." Comments William McInturff, a Republican pollster: "Democrats have blown everything they've got into the security issue. Someday this will boomerang when the public comes to associate with more Big Government and bureaucracy."

TESTOSTERONE. But in the meantime, says political analyst Kevin P. Phillips, Clinton's security strategy may position him well for his 1996 rendezvous with the voters—assuming the economy keeps moving upward. "When it comes to really stopping corporate downsizing and having a viable industrial policy, Clinton's security blanket gives a guy who's about to face the firing squad an alpacat," says Phillips. "With no ideas and no testosterone, Republicans are in no position to fight back."

Economically, however, Clinton's security offensive is less impressive—and could even be a drag on growth. Many of the education and training initiatives have been tried without much success. Violent crime, largely a local problem, has proven resistant to federal intervention. A massive new health-care entitlement could wind up costing the nation billions. Clinton's industrial policy initiatives could produce some gains, but perhaps a few boondoggles as well.

Overall, the impact on America's \$7 trillion economy is likely to be slight. For his part, Clinton can only hope that the State of the Union security blanket extends his stay in the Oval Office.

By Paul Magnusson and Owen Ullmann, with Lee Walczak and Susan B. Ireland, in Washington, and with Christopher Farrell in New York

ROBERT'S RULES OF REORDER

The new agenda makes Reich's star shine all the brighter



It was vintage Reich. During a satellite hookup to a Paris economic conference on Jan. 6, Labor Secretary Robert B. Reich was asked about the December employment figures, due for release by the Labor Dept. the next day. Instead of keeping mum to avoid riling the markets, Reich predicted that 160,000 to 200,000 jobs had been created—far fewer than market expectations. Big mistake: The bond market soared, prompting Administration aides to shoot down Reich's remarks. That just confused the market further. When the job number came in smack in the middle of Reich's range, angry traders demanded the loose-lipped Secretary's resignation.

Fat chance. In fact, despite the inauspicious start, 1994 could be Reich's year. President Clinton's economic guru may

liam A. Galston, "are all but canonical in this Administration."

Those concepts stem from Reich's 1991 book, *The Work of Nations*, a Washington best-seller. In a world of global capital flows and rootless corporations, Reich argued, a country's only dependable asset is its work force. That means better basic education plus "lifetime re-education"—training to help workers through the half-dozen job changes that Reich maintains will be normal in a worker's career. "We must make it easy for people to get everything they need to move quickly and expeditiously to the next job," he says.

FOUNTAIN OF IDEAS. These theories have captured Clinton's imagination, but putting them into practice is something else again. Treasury Secretary Lloyd M. Bentsen and Budget Director Leon E. Panetta are blocking new taxes or mandates to pay for training. So Reich has gotten the green light for only a modest

"reemployment" initiative that will streamline job-search and training services for permanently laid-off workers and, Reich hopes, produce efficiencies that will enable the programs to serve more people. Retraining will fare no better, receiving only a minimal boost in the fiscal 1995 budget. And Reich's overhaul of Uncle Sam's training efforts, which are spread among 14

agencies, is at least a year—and many bruising bureaucratic struggles—away.

If anyone was equipped to make change happen under Clinton, it was Bob Reich. He came to Washington as one of the leading liberal analysts of the changing American economy. For over a decade at Harvard University's John F. Kennedy School of Government, he served as a fountain of ideas for Democrats, especially as the party evolved toward industrial policies that support business as long as business works to meet social needs.

ON DOWNSIZING

"IF THE UNITED PROPOSAL [FOR INCREASED EMPLOYEE OWNERSHIP] IS SUCCESSFUL, IT WILL BE VERY DIFFICULT FOR BOARDS FACED WITH THE PROSPECT OF CUTTING PAYROLLS TO AVOID AT LEAST CONSIDERING EMPLOYEE OWNERSHIP, EMPLOYEE PARTICIPATION, AS ANOTHER SOLUTION"

have had a tough 1993, as his plans to stimulate the economy, raise the minimum wage, and mandate employer-sponsored job training fell victim to deficit-cutters and business opposition. But this year, the President will be *Putting People First*—Reich's turf. The resilient 47-year-old Labor Secretary plans to push his programs for bolstering education and helping displaced workers, and they'll be central to Clinton's upcoming State of the Union address. Reich's work-force ideas, says senior White House aide Wil-



LITTLE BIG MAN:
REICH'S SENSE OF
HUMOR ABOUT HIS
HEIGHT HAS HELPED
HIM DISARM CRITICS
AND WIN POINTS

"When Reich doesn't have strong feelings about an issue, he just lets the laborites take over," frets a business lobbyist.

Reich, for instance, backs a bill to ban permanent replacement of strikers. His commission on labor-law reform is likely to recommend changes that would make it easier for unions to organize workers. And Reich's aides, many of them union veterans, have all but endorsed a bill that would boost penalties for safety violations and impose worker-management safety committees, even at small companies. Reich "has shown his desire to address labor concerns," says John J. Sweeney, president of the Service Employees International Union.

And Reich is still pumping out more ideas—enough to keep several Administrations busy. He has urged investors to put the brakes on corporate downsizing, arguing that companies are sacrificing their human resources without considering other options, such as employee ownership. He's also concerned about the rise of the "contingent work force"—especially contract workers, who, he says, "function like ordinary employees, but with none of the protections or benefits." His aides have discussed mandating benefits for such workers, although no proposals are in the works.

Such ideas infuriate some business leaders. "Reich wants to replace free enterprise with the failed European model, which hasn't created any net new jobs in 15 years," says Jack Faris, president of the National Federation of Independent Business. The truth is more complex: Reich wants to equip U.S. workers to garner high-wage jobs in global competition without sacrificing the flexibility that has made American job creation the envy of the world. Many say that

blend, which has never been achieved anywhere, is incompatible.

He won't be able to achieve such grand goals, though, if he can't even get other agencies to coordinate their training and reemployment programs. The Year of Economic Security will test Reich's ability to turn ideas into action. His record to date isn't impressive—but given his determination and closeness to Clinton, no one should count him out.

By Mike McNamee in Washington

Cover Story continues on pages 78 and 80.

More important, Reich has been a close friend and intellectual mentor to Bill Clinton since the two Rhodes scholars met in 1968 on shipboard while traveling to Oxford. Long talks on Reich's back porch in Cambridge, Mass., grooved Clinton's thinking. Says Education Secretary Richard W. Riley: "The president is already where Bob Reich and I are on education and training."

Reich also has personal strengths that are often overlooked. Stunted by a childhood spinal disease, he has spent much of his life easing the palpable discomfort many people feel about his 4-foot, 0-inch frame. He even turns it to his advantage with such standard speech penes as "Let me be short" and "Do I look like Big Government?" This disarming style carries over into Administration debates: Insiders say Reich defends his views strongly but without rancor.

Even in the heated battles over deficit cuts vs. fiscal stimulus, "Bob didn't make enemies," says a Clinton aide.

And he is relentless. If one of his ideas sinks, it's just a matter of time before it resurfaces in new wrapping. Undaunted after his first economic investment package bombed, he was back almost immediately with a new version. His notion of forcing Corporate America to spend money on retraining pops up regularly even though other Clinton advisers have nixed the idea.

LABOR'S LOVE. Other traits are less endearing—and undercut his clout. Reich's pessimism, for instance, is one of the things that sapped his credibility in 1993. He didn't give up calling the economic expansion a "jobless recovery" until September, after the recovery had created 1.3 million jobs. And Reich can be cavalier with facts. When Labor was due to report 365,000 new jobs last February—undercutting the Administration's case for a big jobs program—Reich claimed that 90% of the new hires were unwilling part-timers. The department's career economists later pointed out that their data didn't support that conclusion.

Some in business are rooting for him to rise above such gaffes and make progress on his education and work-force agenda. But executives remain edgy about the Labor chief's ties to unions, which survived his enthusiasm for the North American Free Trade Agreement.

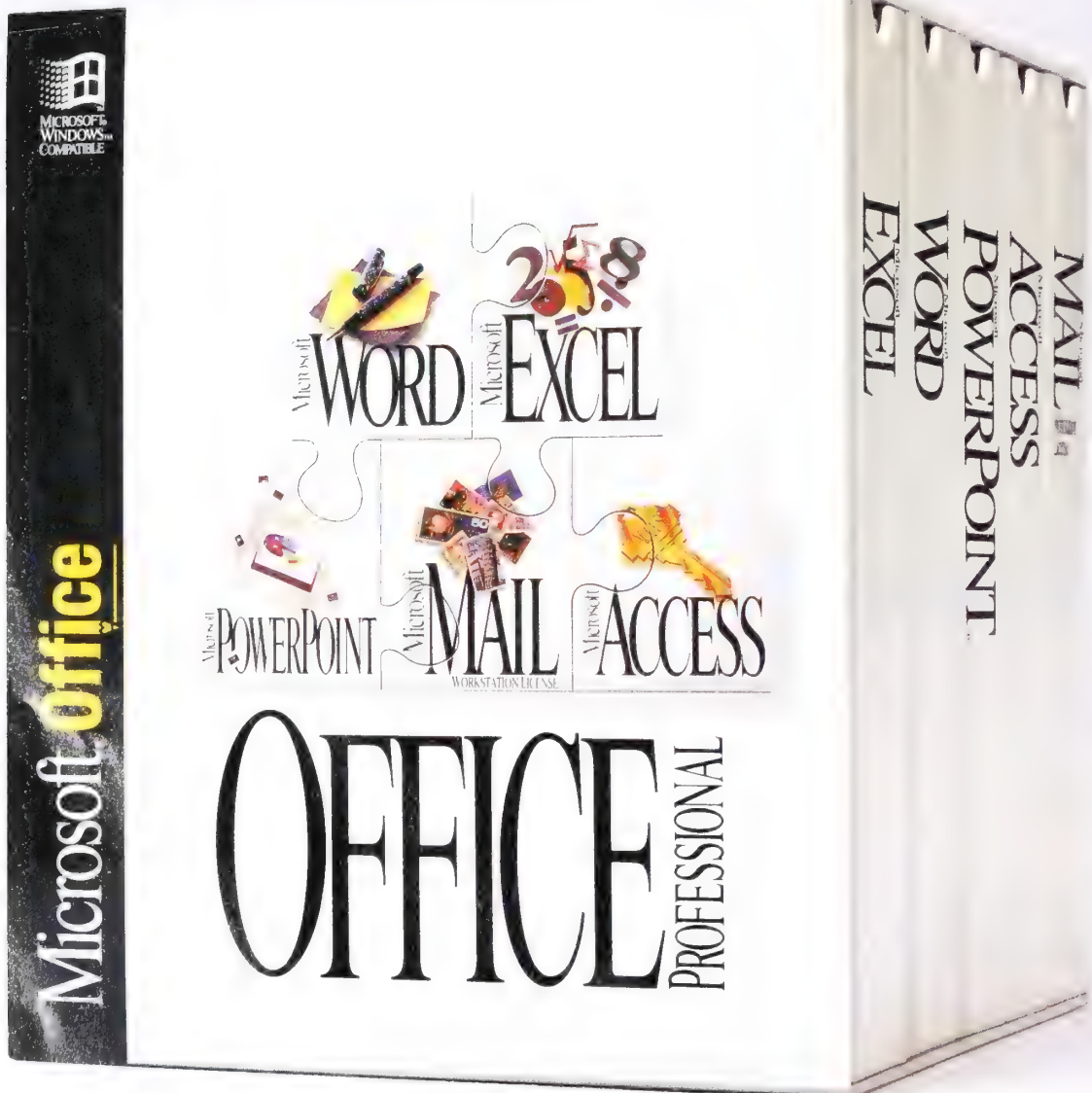
ON INDUSTRIAL POLICY

"INDUSTRIAL POLICY IS ONE OF THOSE TERMS THAT HAS GONE FROM OBSCURITY TO MEANINGLESSNESS WITHOUT ANY INTERVENING PERIOD OF COHERENCE... DO WE HAVE AN INDUSTRIAL POLICY? WE DO. [DOES IT] ACTUALLY PROMOTE HIGHER REAL WAGES AND COMPETITIVENESS? NOT QUITE"

ON INSECURITY

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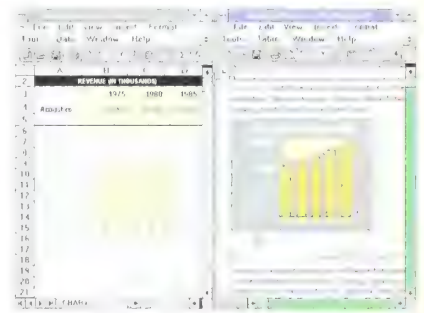
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Commentary/by Bill Javetski

THESE DAYS, EUROPE'S SAFETY NET LOOKS MORE LIKE A NOOSE

In his search for a new model of economic security, it's natural that Bill Clinton frequently evokes, misty-eyed, the virtues of the European welfare state. That gentle guardian against the fear and want of Europe's citizens has occupied a lofty place in the President's thinking ever since his days at Oxford University with his chum, Labor Secretary Robert B. Reich. But after making his first Presidential visit to Europe in mid-January, Clinton should finally leave his innocence abroad. In the Old World nowadays, it's clear that the European model not only won't work for the U.S.—it's not even working for Europe.

No question, one of Europe's proudest postwar monuments is its comprehensive system of education and health care, unemployment protection, leisure time, and pension benefits, all designed with social fairness in mind. Add a labor policy that Germany and elsewhere seems the very ideal of employer-worker cooperation, and the package would naturally entice Washington wonks looking to right the social imbalances of Reaganomics and ease the shocks of today's seemingly perpetual corporate restructuring.

But the Europe of President Clinton's student days—one of rapid growth, brief recessions, and inexorably rising employment—has disappeared forever. Instead, the global economy and Europe's worst postwar recession have fingered Europe's safety net as the key culprit undermining the region's competitiveness. "I wouldn't recommend that any country copy the European model, because it's killing us," says McKinsey & Co. Frankfurt consultant Heino Fassbender.

"BEST SYSTEM." From Spain to Scandinavia, European leaders facing rising budget deficits and deteriorating pension plans are under heavy pressure to find programs that cost less, to institute U.S.-style labor flexibility, and to encourage employment instead of time on the dole.

To be fair, Clinton isn't swimming

that hard against the transatlantic current. Reich himself has recently taken to criticizing Europe's inflexible work rules. But Clinton & Co. still believe that Europe has major programs that could be cherry-picked and exported home. "If we blended our flexible labor markets with their investments in human capital and put the safety net somewhere in between ours and theirs, you would have the best system in the world," Reich says.



Perhaps. But the pickings could be far slimmer than the Administration thinks. The President contends that "there's a lot we can learn from the Germans," whose national health program provides comprehensive coverage at a mere 9% of gross domestic product, compared with 14% in the U.S. But what the President isn't factoring in is the cost employers pay, on top of wages, to support the system. In fact, across the European Commu-

nity, benefits costs—mostly for health insurance—are twice those in the U.S. The EC now admits that such costs are a big reason why the U.S. created 20 million jobs in the 1980s while Europe produced barely any.

The President also admires the way Germany backs its small and midsize exporters. But a third of that country's manufacturers are planning to shift at least some production outside the country. If Germany doesn't drastically ease social burdens on employers, says German Economics Minister Günther Rexrodt, "we will become the world champions at exporting jobs rather than goods."

CULTURE CLASH. Clinton, too, finds "terribly impressive" German worker-training programs—also a favorite of Labor Secretary Reich. But are German employer-funded apprenticeship programs even relevant to the U.S.? McKinsey's Fassbender argues that such programs produce just what the U.S. economy doesn't need: narrowly trained workers perfectly suited to an inflexible work force. Furthermore, transferring to the hypermobile U.S. economy a system based on 200 years of German culture would be difficult, if not impossible. Employers would lack incentives to pay for the training, as well as German methods for guaranteeing worker loyalty—including requiring 10 years of service before a pension can be earned.

President Clinton is right that maintaining a high-performance economy will require devoting more care and money to social and labor policy than his Re-

publican predecessors were willing to invest. But there's little doubt that any adjustments are going to have to be homegrown. Certainly these days, it's Europe that's growing misty-eyed whenever it considers the U.S. economy's innate flexibility, which stands as a major competitive advantage in the early days of the new economic order.

Javetski covers European economic policy for BUSINESS WEEK from Paris.

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FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS



ARE YOU LISTENING, MR. PRESIDENT?

WHAT'S THE WORRY?

■ How much do you worry that:

	A great deal	Quite a lot	A little	Not at all	Not sure
You or another family member not having enough money when you need it	21 1/2%	24 1/2%	31 1/2%	13 1/2%	1 1/2%
You or another family member not having health insurance when you need it	26 1/2%	21 1/2%	27 1/2%	13 1/2%	6 1/2%
You or another family member may be the victim of a serious crime	16 1/2%	23 1/2%	42 1/2%	15 1/2%	6 1/2%
You or another family member may lose their job	14 1/2%	17 1/2%	33 1/2%	32 1/2%	3 1/2%
A major war involving the U.S. may happen	16 1/2%	15 1/2%	46 1/2%	18 1/2%	1 1/2%
You or another family member may not have the skills you need	8 1/2%	15 1/2%	34 1/2%	42 1/2%	1 1/2%

OUNCES OF PREVENTION

■ How much do you think the federal government can do to prevent:

	A great deal	Quite a lot	A little	Not at all	Not sure
A major war involving the U.S.	42 1/2%	36 1/2%	16 1/2%	5 1/2%	1 1/2%
You or another family member not having health insurance when you need it	26 1/2%	26 1/2%	24 1/2%	13 1/2%	3 1/2%
You or another family member not having enough money when you need it	21 1/2%	23 1/2%	36 1/2%	17 1/2%	2 1/2%
You or another family member being the victim of a serious crime	14 1/2%	21 1/2%	36 1/2%	24 1/2%	5 1/2%
You or another family member losing their job	15 1/2%	16 1/2%	36 1/2%	25 1/2%	1 1/2%
You or another family member not having the skills you need	11 1/2%	16 1/2%	44 1/2%	24 1/2%	2 1/2%

JOB JITTERS

■ How concerned are you that the employment situation may worsen in the following six months? How much will happen between now and the time you choose to re-enter the workforce? How concerned are you about the job market?

	Very likely	Some what likely	Some what unlikely	Very unlikely	Not sure
You will have a harder time finding a job	46 1/2%	18 1/2%	13 1/2%	21 1/2%	2 1/2%
You will have a harder time finding a job in your field	24 1/2%	23 1/2%	17 1/2%	36 1/2%	6 1/2%
You will have to leave your field looking for a job	17 1/2%	23 1/2%	24 1/2%	36 1/2%	6 1/2%
You will have to move out of state to find a job	18 1/2%	21 1/2%	18 1/2%	41 1/2%	2 1/2%
You will have to go to another country to find a job	11 1/2%	21 1/2%	26 1/2%	41 1/2%	1 1/2%
You will have to be self-employed to find a job	8 1/2%	16 1/2%	16 1/2%	65 1/2%	1 1/2%

DOCTOR BILLS

■ President Clinton's plan for health-care reform would guarantee health insurance for all Americans regardless of whether they change jobs, become unemployed, or develop a major illness. It also would involve some restrictions on choice of doctor, a bigger role for government in health care, and higher costs of taxes. Would you favor or oppose this plan?

Favor 53% Oppose 43% Not sure 4%

UNCLE SAM'S VOCATIONAL SCHOOL

■ The Clinton Administration wants the federal government to provide more training for American workers to give them competitive job skills. If this also involves higher taxes for employers and employees and more government involvement in job training, would you favor or oppose this plan?

Favor 54% Oppose 43% Not sure 3%

PORT-A-PENSIONS

■ Some Clinton Administration officials are considering a pension reform plan which would ensure that employees who change jobs can take their retirement benefits with them, so that workers who change jobs several times won't be left without a nest egg. If the cost of doing this forced employers to reduce retirement benefits or pay lower wages, would you favor or oppose this plan?

Favor 47% Oppose 48% Not sure 5%

CALLING THE COPS

■ The Clinton Administration is proposing adding 100,000 local police paid for by the federal government or a cost to taxpayers of \$1.1 billion a year. The money would have to come from additional taxes or cuts in other government programs. Would you favor or oppose this plan?

Favor 52% Oppose 44% Not sure 4%

MITT, AMERICAN STYLE

■ Other countries take a more active role in promoting industry and making their businesses more competitive abroad. Would you like to see the federal government take a more active role in helping specific industries, or should it leave it to the free market?

Take a more active role 36% Neither way 20% Leave to free market 54% Not sure 4%

THE PRICE OF CHANGE

■ The Clinton Administration believes that America has to make major changes — some of them painful, some of them costly — in order to provide Americans with economic security in the future. Do you tend to agree or disagree with this?

Agree 57% Disagree 29% Not sure 4%

Based on Harris Poll Harris.

Survey of 1,000 adults conducted Jan. 7-10, 1994, for Business Week by Louis Harris & Associates Inc. Results should be accurate to within three percentage points.

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Every month, Morningstar¹ rates and analyzes more than 2,500 mutual funds available to consumers, using criteria such as investment return over at least three years, relative to risk. Recently 18 Fidelity tax-free bond funds received 4- or 5-star risk adjusted ratings from this independent mutual fund performance monitor.

What Accounts For Our Success?

Supported by more than 30 in-house researchers, Fidelity fund managers look at today's most promising municipal invest-

If you're concerned about rising state and federal taxes, Morningstar's ratings give you more reasons than ever to consider a Fidelity tax-free fund.



Rating is not specific to any particular Fidelity fund performance.

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TRADING IN HONG KONG: EVERYONE EXPECTS MORE GROWTH, AND THE WORD NOW IS BLUE CHIPS

EAST ASIA'S SUDDEN SLIDE

After a vaulting '93, many see this stock dive as an opportunity

When the bell rang on Dec. 30, ending 1993's last day of trading on the booming Hong Kong Stock Exchange, the number 1,888 flashed from the tote board displaying the Hang Seng index. The number eight signifies wealth in Cantonese, so the closing price should have been an auspicious omen for 1994. But in Hong Kong and across much of East Asia, investors have had anything but good fortune since the new year dawned.

After a rocket-fueled 1993 that saw some bourses double in value, 1994 is off to a bumpy start. Since New Year's Day, the Hang Seng has lost 10%, Bangkok's Stock Exchange of Thailand index is off 11.6%, and Kuala Lumpur's composite index is down 16.4% (table). U.S.-listed country funds are also in a tailspin. Since Dec. 1, Malaysia Fund and Thai Fund are each down 9%, Singapore Fund has dropped 17%, Taiwan Fund has

lost 14%, and China Fund has dropped 21%. Some experts expect even more declines. Nicholas Knight, Nomura Securities Co.'s influential London-based strategist, is one of them. After the Hang Seng hit a record 12,221 on Jan. 4, Knight shook the region's bourses a day later by advising clients to stock up on Japanese equities and retrench in Hong Kong, Malaysia, and the Philippines. Says Peter Soo, director of fund management for AIG Investment Corp. (Asia): "Stock markets in Asia have been way overheated."

We are seeing a long-overdue correction."

But this may be only a temporary downturn, and the markets may soon bounce back. After all, Asia remains the world's "growth engine," says Baring Securities Ltd. Hong Kong analyst Nigel Chan. Even if a rise in short-term U.S. interest rates pushes Asian rates higher, earnings prospects remain bright across the region, with profits expected to be up 20% in Hong Kong and 25% in Indonesia this year. Asian price-earnings ratios are hardly out of line with the U.S. average of 23, and Hong Kong and China are far below.

BARGAINS. Indeed, many Asian money mavens say their region still offers high-quality issues with solid growth prospects. So much so that AIG's Soo, who manages the open-ended Van Eck Asia Dynasty Fund, found the Hang

Seng's drop the perfect reason to become "a very big buyer" of blue chips. With an average price-earnings ratio of 15 for the Hong Kong market, "we still find a lot of value out here," agrees William R. Ebsworth, managing director of Fidelity Investments Management (H.K.) Ltd. "The market may be down, but when you go out and visit companies, they look very good."

Ebsworth counsels sticking to blue chips as the safest way to weather a stormy period. "We want a great balance sheet, great management, great earnings growth. That way, if you get a 700-point drop in the market, at least you're not embarrassed." Chief among Ebsworth's recommendations are Hong Kong's big commercial-property companies. Noting the full occupancy rates of some developers' prime office buildings and hotels, Ebsworth and other analysts favor Hong Kong Land, Wharf Holdings, and Sun Hung Kai Properties. Meanwhile, Kara Tan Bhala, portfolio manager of Merrill Lynch Dragon Fund (box), is moving into HSBC Holdings, the owner of the global Hongkong & Shanghai Bank empire. And AIG's Soo likes Luks Industrial, a maker of color



SOME ASIAN BOURSES TAKE A HIT

PRICE-EARNINGS RATIO* (U.S. AVERAGE=23)

PERCENT CHANGE SINCE DEC. 31, 1993**

*ESTIMATED 1994 EARNINGS **THROUGH JAN. 12

CHINA

18

6.4%

TAIWAN

34

2.4%

televisions with rising sales in mainland China that's trading at a mere eight times 1993 earnings.

Hong Kong is hardly the only Asian market that's still worth a look. Don't forget Bangkok. That market's recent drop may actually have pleased government finance officials, who had been fretting that massive foreign investment was hyperinflating stock prices and putting upward pressure on the Thai baht. Malaysian officials have made similar noises. That's why Mark Greenwood, an analyst at Bangkok's First Asia Securities Ltd., thinks the recent declines across the region represent "pricking a miniballoon before it becomes a major balloon." He and others think it's just one more reason to buy blue chips.

Nomura's Bangkok-based research chief, Pakpoom Vallisuta, thinks infrastructure projects will continue to buoy the fortunes of land developer MDX Ltd. Big lenders, including Bangkok Bank, Thai Farmers Bank, and Siam Commercial Bank, could also benefit from the construction boom. But some stock-pickers prefer Malaysia, where investors are counting on stocks to recover as government spending rises in advance of an expected national election. John R. Hickling, manager of Fidelity Overseas Fund, favors Telekom Malaysia, which, at \$7 per share, is 20% off of its recent high.

FOREIGN FLIGHT. For all of the construction projects under way, however, it still may be developments in China that call the tune of Asia's markets. With inflation topping 20% in urban areas, Vice-Premier Zhu Rongji is trying to get the economy under control through currency devaluation, bank reforms, and new taxes. And though he risks sparking labor unrest, some economists think Zhu will also be forced to reimpose the credit squeeze he recently eased. Amid such concerns, Andrew Hunt, chief economist of Hong Kong's Thornton Asset Management, thinks China's economic growth rate could fall as low as 4% by the fourth quarter, from 13% in 1993.

Such a steep drop could further unsettle Hong Kong. But in a world where many industrial economies are struggling to achieve 2% growth rates, even a

A WOMAN WHO'S RUNNING WITH THE TIGERS

If you want to know how hungry U.S. investors are for Asian stocks, ask Kara Tan Bhala, portfolio manager of the \$1.3 billion Merrill Lynch Dragon Fund. On Dec. 23, Merrill opened the fund to new investors for the first time in six months. In one hour, \$240 million flooded in, prompting an overwhelmed Merrill to shut the doors again.

Given Asia's red-hot performance in 1993, it's not hard to love the region's dragons and tigers. With Tan and her

Although 36% of Dragon's assets are in Hong Kong, where Tan favors blue chips, she sees even greater values elsewhere. Tan is high on her native Singapore, where she favors IPC Corp., a computer maker that plans to move into China and Vietnam. She also likes neighboring Malaysia. And China is occupying an increasing amount of Tan's attention. She worries that Beijing will probably clamp down on inflation this year, but that hasn't stopped her from buying into Shanghai Dajiang, a big poultry producer.

LOTS OF HOMEWORK. Tan got into the Asian money game after earning a master's degree in management from Oxford University, returning to Singapore to be an analyst for James Capel & Co. That led her to New York's Fiduciary Trust Co. International and then to Merrill, which lured her away in 1992 with more money and an offer to run a mutual fund. When not on the road to Asia, she commutes between Princeton and Williamsburg, Va.,

where her Indian-born husband, Raj, is a law professor at William & Mary University. In her spare time, she's finishing a master's in philosophy at New York University. "If my performance goes bad," she says, "I can always teach." True. But if Tan's forecasts for Asian growth are right, investors aren't likely to let her get near a blackboard any time soon.

By William Glasgall in New York



TAN: "I'M BUYING WHENEVER I SEE WEAKNESS"

two analysts in Princeton, N.J., picking stocks in nine countries from South Korea to India, her 20-month-old, open-ended fund soared 88% in 1993. Although January has been less kind to Dragon—it's down 5% since the first of the year—Tan's faith in the region's strength is unwavering. "I'm buying whenever I see weakness," says Tan, 38. "I love these markets. They're risky but exciting."

5% expansion is nothing to sneeze at. Indeed, many Asian nations expect 1994 to bring considerably higher growth. Merrill Lynch & Co. estimates that Indonesia's gross domestic product will surge 7.8% this year on top of 7% in 1993. Thailand could grow even faster.

If those predictions hold true, "I'm sure the foreign money will come back," says Nomura strategist Vallisu-

ta. Perhaps not with the enthusiasm of '93. But few analysts think global investors can afford to ignore Asia for long.

By Dave Lindorff in Hong Kong and William Glasgall in New York, with Ken Stier in Bangkok and Larry Holyoke in Tokyo

KOREA	INDONESIA	SINGAPORE	PHILIPPINES	HONG KONG	THAILAND	MALAYSIA
22	19	18	21	15	18	22
1.7%	-0.6%	-6.8%	-9.0%	-10.0%	-11.6%	-16.4%

DATA: BRIDGE INFORMATION SYSTEMS INC., MERRILL LYNCH & CO., BUSINESS WEEK

ALL-GOTTEN CAPITAL GAINS?

A T-bill fund failed to warn of tax-code changes

One of the cardinal rules of mutual-fund investing is to read the prospectus. Funds bend over backward to lay out the investment strategy and potential risks. Anyone who reads the prospectus and marketing brochures of the \$140 million Permanent Portfolio Treasury Bill Portfolio would think the fund is a great deal. Its strategy is to convert interest income into capital gains by retaining income instead of declaring daily dividends as most money-market funds do. This can save a bundle in taxes because the tax rate on income can be as high as 39.6%, while on long-term gains it's 28%. There's only one catch—and it's not in the prospectus: the strategy may be illegal.

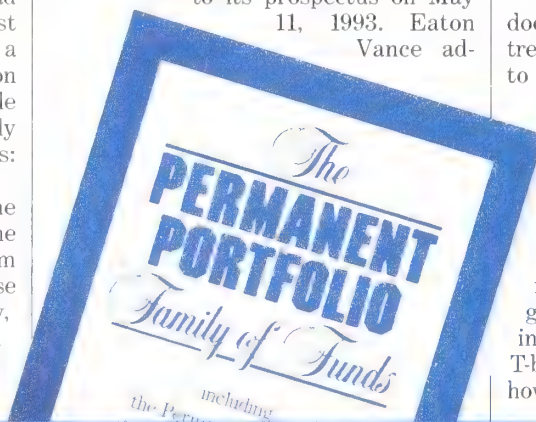
Experts believe that a portion of the 1993 tax bill, now Section 1258(c) of the tax code, prohibits a mutual fund from turning income into capital gains. Those who have bought the fund since May, 1993, could run afoul of the Internal Revenue Service if they claim their earnings from the Permanent Portfolio T-bill fund as capital gains.

Terry Coxon, president of the Permanent Portfolio Family of Funds Inc., a Petaluma (Calif.) fund company with \$280 million in assets, says there's no need to discuss the law in the prospectus because it's irrelevant. "I don't believe Section 1258 applies to us," Coxon said in a telephone interview on Jan. 9. The next day, Coxon said a new version of the prospectus, due in February, would alert investors to the new law. "We don't want to make a promise an investor is going to get capital gains," said Coxon, "but I do believe he will." BUSINESS WEEK, unaware of the change in the law, reported on the fund's strategy to save taxes in its Dec. 6 issue.

HOLD. Even though Permanent Portfolio will amend its prospectus, securities lawyers say it should have done so much sooner. "If there is a material risk that a law applies to a fund, the fund must let people know about it," notes Robert E. Plaze, assistant director

of the Securities & Exchange Commission division that regulates mutual funds.

The few other funds that practice the conversion strategy reacted to the new law much sooner. Those funds were sold mainly to corporations and institutional investors, while Permanent Portfolio marketed to individuals. The Eaton Vance Short-Term Treasury Fund, for instance, issued a one-page supplement to its prospectus on May 11, 1993. Eaton Vance ad-



COMPARE THE ADVANTAGES

	Treasury Bill Portfolio	VS.	Ordinary Money Funds
TAX BENEFITS	1. Higher after-tax return 2. More spendable cash 3. Estate planning advantages		No tax benefits

vised shareholders that a law had been proposed that could affect their investment in the fund and urged them to seek their own tax advice. "We talked about changing the strategy of the fund, but how can you do that until rules are clarified?" asks Michael B. Terry, the fund's manager. The law does not cover investments in such funds made on or before Apr. 30.

Converting interest income
to capital gains can save
investors a bundle on taxes.
One catch: It may be illegal

"I don't see how you can in all good conscience represent this [conversion] as a valid sort of fund," says Bruce R. Bent, president of the Reserve Fund, which runs a conversion fund. "The law is ambiguous." He says institutional investors stopped putting money in the fund.

Many think the conversion strategy is unambiguously dead. Treasury officials decline to comment, but several delivered speeches to legal and mutual-fund groups last year asserting that Section 1258 did apply to funds such as Permanent Portfolio's. Robert N. Gordon, president of Twenty-First Securities Corp., once a fan of such funds, advised his many corporate clients in August to avoid making new investments in the funds. "If there's anyone who wants to see them work, it's me," says Gordon, whose firm had at one point \$500 million of its clients' money in these funds.

True, the new section in the tax code doesn't mention mutual funds. But it treats "conversion transactions," attempts to recharacterize ordinary income as capital gains, as fully taxable ordinary income. To be a "conversion transaction," a strategy must meet two tests. First, "substantially all of the taxpayer's expected return... is attributable to the time value of the taxpayer's net investment." Time value, say those who argue that the law applies, includes interest-earning investments such as T-bills. Coxon disagrees. "We don't know how much time the investor is going to spend in the fund," he says. "That and how much he earns is going to depend on interest rates."

LATE HIT. The second test is whether the strategy is "marketed or sold as producing capital gains" from a time-value investment. On that count, the law unquestionably applies to Permanent Portfolio. The literature the fund distributes describes how it turns ordinary income into capital gains and how, because of the lower tax bite, the investor ends up with more aftertax income. BUSINESS WEEK also called the fund's toll-free telephone number on Jan. 10 and asked how the fund works. The fund, the representative said, "in effect turns interest income into capital gains, which are not taxed until you take them out of the fund."

Coxon's view that the conversion strategy will survive is unlikely to prevail. From now on, any mutual fund that wants to produce capital gains will have to do it the old-fashioned way: earn it.

By Jeffrey M. Laderman in New York

MAKE IT \$40 MILLION

That's what ex-CEO Gutfreund claims Salomon owes him

In 1991, when Warren E. Buffett stepped in to rescue Salomon Inc. from the fallout from the Treasury bond bid-rigging scandal, part of his strategy was to cast CEO John H. Gutfreund and bond trader Paul W. Mozer as the central culprits. The Securities & Exchange Commission and the Justice Dept. ultimately agreed with him. Mozer was sentenced to four months in prison and fined \$30,000. For failing to supervise employees, Gutfreund was fined \$100,000 and banned from running a brokerage again. And Salomon revoked the 1991 bonus, stock options, and severance pay he otherwise would have been entitled to and refused to pay his legal fees.

Buffett's dealings with Gutfreund, though, are far from over. A bitter struggle between the two men is being

played out at 20 Broad St., in the drab arbitration rooms of the New York Stock Exchange. At issue, say Wall Street sources: Was Salomon justified in withholding Gutfreund's compensation when he left? The former King of Wall Street is seeking \$40 million, say several people familiar with his case. Neither Salomon nor Gutfreund would comment.

The \$40 million far exceeds the approximately \$12.3 million in claims Gutfreund had previously made, according to Salomon's proxy of Mar. 25, 1992. At that time, Gutfreund claimed a \$2 million bonus for 1991, approximately \$4.5 million for two years of severance pay, \$343,497 from a special bonus plan, and options for 744,900 Salomon shares, which he was not permitted to exercise.

BIG HUGS. Gutfreund's claims against Salomon are being weighed by a panel of industry arbitrators. Disputes among securities firms are usually resolved in proceedings at the NYSE or other stock

exchanges. Gutfreund has been spotted at the hearing room greeting a former colleague with a big hug. But other Salomon employees are testifying against Gutfreund, Street sources say.

Emotions are running high. Gutfreund's supporters argue that their cigar-chomping chief-tain spent years building up Salomon's business and that he deserves the money the firm refused to pay him. They point out that Gutfreund was not charged with being directly responsible for the scandal. His only mistake, they say, was not promptly reporting it to authorities.

Hogwash, say his detractors. They claim that Gutfreund, as CEO, was guilty of lax

management and letting traders run amok. Given the disastrous financial impact on the firm from the scandal, they argue, Gutfreund is the last one who deserves a bonus. But more than money is on the line in this face-off between Wall Street legends.

By Leah Nathans Spiro in New York



DESERVING BOSS—OR LAX MANAGER?

ANKING

CHASING A SHAKEOUT

Chase Manhattan starts investing in ailing insurers

Guess who's chasing after insurance companies these days? The unlikely answer: banks. Especially noteworthy is a new venture called Insurance Partners, a joint venture involving Chase Manhattan Corp.; Keystone Inc., formerly the Robert M. Bass Group; and Centre Reinsurance Holdings Ltd., a unit of Zurich Insurance Co., the Zurich-based concern. Insurance Partners, which will have at least \$400 million in assets and is slated to close within a month, will invest in insurers with problems or those that it believes are undervalued, say sources close to the deal. J.P. Morgan & Co. is also in the game. Along with two partners, Morgan is raising a \$500 million fund to invest in insurance startups.

Among the goals of Insurance Partners will be to capitalize on the accel-

ating insurance-industry consolidation by fixing up companies, then selling out at a profit. Since its investments, unlike the Morgan fund, will be leveraged, Insurance Partners will be able to buy or invest in companies with assets of more than \$1 billion. The three founding partners are investing a total of \$200 million in Insurance Partners. About 80% of the rest will come from institutional investors including other Bass investment vehicles and individual investors, a market source says. Chase declined comment on the fund, as did Keystone and Centre Re.

BREAKFAST MEETING. Banks and insurance companies have long been separated by regulations. Most U.S. banks are forbidden to get involved in managing an insurance company or to acquire more than 24.9% of an insurer. Chase will leave the day-to-day management of the fund to the other founding partners and its investments will be less than the maximum allowed, but the bank could provide senior debt financing

to supplement Insurance Partners' equity investments.

Chase had been mulling a fund to invest in insurance companies for more than a year before Insurance Partners came together, and Centre Re and Keystone had also been considering such a venture, according to a market source. But it wasn't until a Chase-sponsored conference on insurance held last March that the three got together. Over breakfast, officials from the three companies discussed their ideas and decided to try and launch a fund together. They inked a deal a month later and began soliciting investors last fall.

The partners made their first bid last summer. They tried to buy Prudential Reinsurance Co., a subsidiary of Prudential Insurance Co. of America, when it came up for sale. But Prudential took the unit off the block because bids did not meet its asking price of \$1.2 billion.

Insurance Partners is entering a crowded field. Conning & Co., a Hartford investment firm, is raising \$100 million to take positions in mid-size insurers. Conseco Inc., an insurance holding company, is raising \$615 million for life-insurance deals. These ventures may not become bonanzas, but as the banks see things, it beats making loans.

By Kelley Holland, with Suzanne Woolley, in New York

Insurance Partners is focusing on buyouts. Morgan is funding startups

BY GENE G. MARCIAL

WHAT COULD GET COMDISCO DANCING

No, Comdisco is not a discotheque. It's an enterprise that moves to the less-entertaining beat of buying, selling, and leasing new and used computers as well as medical equipment. The recession crimped business as mainframe computer sales and the leasing of new equipment slowed. But with the economy on the rise and earnings rebounding, some money runners are buying into Comdisco.

"These pros are now looking for the classic cyclical and earnings-turnaround plays, as the Dow keeps climbing to new highs," says one money manager who has been buying shares. The stock jumped to 20 after trading as low as 14 in early August. And management, which has been repurchasing shares, recently authorized another buyback worth \$25 million—a sure way of enhancing per-share earnings.

Officers and directors already hold about 29% of Comdisco's 39 million shares outstanding, of which 24% is owned by Chairman and President Ken Pontikes. While Pontikes undergoes treatment for colon cancer, board member Jack Slevin has been named interim head of the office of the president. Slevin is scheduled to return to work by mid-January.

BRIGHT PICTURE. One pro says that Pontikes may now wish to sell his huge position or at least part of it. Such a move could precipitate some activity in the stock. "With that possibility, plus all the good things going for Comdisco—including a low price-to-book ratio, modest price-earnings multiple, and the recent rebound in earnings—the stock is bound to pop," says the money manager. He says it will hit 30 this year based alone on the improving earnings growth.

"Overall profit margins should continue to widen as the company recognizes greater profits from older computers and equipment that are being re-leased," says Sam Dedio, an analyst at Standard & Poor's. He expects revenues for the year ending Nov. 30 to remain flat due to the lower volume in initial leases of mainframe computers. But that will be offset by gains in its medical-equipment business, he adds.

UPBEAT NOTES AT COMDISCO



Analyst Mike Lloyd at NatWest Securities says that despite the drop in mainframe prices, "we now have confidence in Comdisco's ability to generate earnings gains of at least 11% over the next few years." Cost reductions and lower interest expenses will boost profits in fiscal 1994. He sees earnings climbing from \$1.97 in 1993 to \$2.20 a share in 1994 and to \$2.45 in 1995.

CARNIVAL'S CRUISE ISN'T OVER

It's been clear sailing lately for the world's largest cruise operator—Carnival Cruise Lines (soon to be renamed Carnival Corp.). Credit the success to the rediscovery by American tourists of ocean-liner vacations. Carnival, catering to a middle-income market, has defied the odds in posting record earnings since 1990. The recession has far from slowed the rapidly growing Carnival. So its stock has been on a roll, rising from 37 a share last summer to 50 in December. With the stock now at 47, has Carnival finally surged to its peak?

"Not a chance," says a money manager who invests mainly in entertainment stocks. He believes Carnival is fast becoming a major entertainment company, with increasing stakes in riverboat gambling, hotels and casinos, and the tour-and-travel business. The stock, he figures, is worth 60. Analyst Ed Tavlin at Fahnestock agrees: "The consistently high level of passenger satisfaction has resulted in continuous and significant financial success for Carnival." Since going public in 1987,

notes Tavlin, revenues have nearly tripled and earnings have advanced from \$1.30 to \$2.25 in 1993.

One factor that's sure to further boost the stock is management's plan to form a company that will operate Carnival's riverboat gambling and hotel-casino operations. Carnival intends to spin off to shareholders 45% of its 50% stake in this new company. The other 50% will be owned by privately held Continental Cos., a hotel-management outfit.

It may come as a surprise that Walt Disney might enter the cruise business. Carnival Vice-Chairman Howard Frank, who raised the possibility, told BUSINESS WEEK that Disney's entry would stimulate more business for the industry. Some pros speculate that rather than form its own company, Disney might opt to buy Carnival. Frank, who says Carnival and Disney have had no discussions, says: "We wouldn't be interested." Disney officials declined to comment.

THIS GRASS LOOKS GREENER

The recent severe snowstorms in the Northeast have dampened the stock of Barefoot Inc., a major lawn-care company. Barefoot shares have slumped on NASDAQ to 29 from 34 on Jan. 3. But several analysts are still holding fast to a sunny forecast.

"The stock's recent weakness doesn't appear to reflect any fundamental weakness in the company's operations," Kidder Peabody analyst Todd Berko assured clients. "We continue to expect third-quarter earnings of 26¢ vs. 16¢ a year ago, and our estimate remains \$1.37 for the year ending Mar. 30, 1994, and \$1.80 for fiscal 1995," adds Berko. The 1995 figure could prove low, he explained, because raw-material costs have been falling. His price target for the next 12 months: 43.

This fast-growing company with \$50 million in sales has a "strong earnings momentum going for it," says one New York hedge fund manager who bought into Barefoot recently. This pro also likes the company's "solid balance sheet, with its cash exceeding the company's debt" despite recent acquisitions. Selling at 17 times estimated calendar 1994 earnings, Barefoot is way undervalued, he insists. "If it reflected the company's 30% earnings growth rate, the stock would jump to 54 a share," says this pro.

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YIELD SIGNS ON THE INFO INTERSTATE

As regulations take shape, it seems everyone must give a bit

Ask Vice-President Al Gore what happens to the U.S. if it doesn't reform its antique telecommunications laws, and he tells a story about the Titanic. More concerned with profit than safety, the ship switched off its wireless after sending the last messages for its passengers. So it didn't receive iceberg warnings that could have prevented the disaster. That led to tough new laws. Now, says Gore, government needs to step in to "not only save lives but utterly change and enrich them."

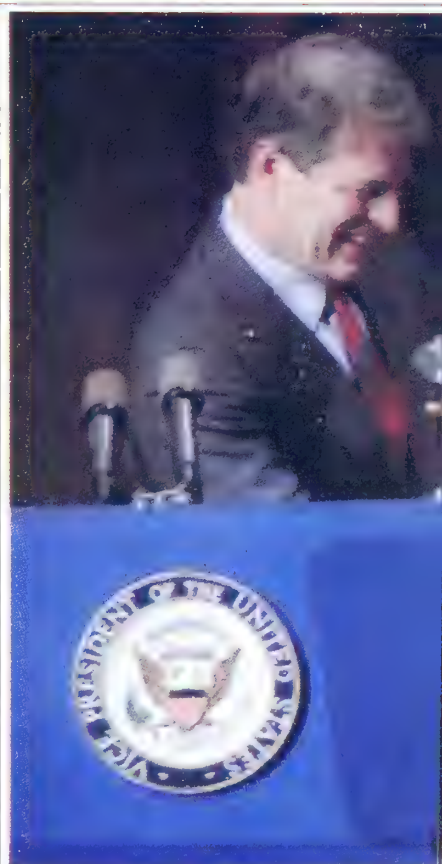
Gore—and just about everybody else in Washington and in the communications business—views U.S. telecom regulations as dangerously out of date. Cable and telephone companies are forming alliances and invading each other's turf. Long-distance carriers are trying to grab pieces of the local-phone monopolies. It's all part of a frenzied leap toward a nationwide Information Superhighway, a powerful electronic network capable of delivering vast amounts of data and entertainment to businesses and couch potatoes alike, as well as potentially lifesaving remote medical diagnosis.

"The telecommunications world as we understood it is gone—shattered," says Jerry Berman, director of the Electronic Frontier Foundation, a Washington advocacy group. James G. Cullen, presi-

dent of Bell Atlantic Corp., predicts "five years from now, we will not be able to remember which companies were telephone companies and which were cable companies, and, we hope, which were long-distance or wireless."

So there's broad-based support for a major rewrite of the nation's 60-year-old communications laws. Both Congress and the Administration are hard at work. Pending bills aim to break down outmoded barriers that separate local service from long-distance, telephones from cable TV, and programming owners from delivery systems. And on Jan. 11, Gore pledged in a speech to the Academy of Television Arts & Sciences in Los Angeles that the Administration would rapidly push through its own sweeping legislation. "This will be the biggest year in telecommunications in decades," says U.S. Representative Rick Boucher (D-Va.), a key player in the rewrite.

THORNY ISSUES. It could also turn out to be the most contentious—although you would never guess from appearances. Publicly, business interests that had fought bitterly over telecom regulations for decades have lined up together. "Traditional bones of contention aren't being chewed on anymore," says Federal Communications Commission Chairman Reed E. Hundt. To smooth



the path to the digital future, local and long-distance carriers and cable companies all agree to support the general principles spelled out in the forthcoming legislation: that the Information Superhighway should continue to be built by private industry with a minimum of government intervention; that existing regulatory restrictions on phone companies be lifted; and that new regulatory policies ensure open access to the data highway—making sure that the new digital networks don't bypass poor and rural America.

THE PLAYERS SHAPING TELECOM POLICY

As the debate heats up over how to build the Information Superhighway, Congress and regulators are considering a radical overhaul of the nation's communications policies. Here's where the players stand on the issues:

WASHINGTON

Congress and the White House want to open all segments of the communications system to competition, while ensuring that the telephone era policy of universal service—everyone has access—survives. A key issue: What constitutes universal service on the Information Superhighway? Should everyone have access to every information provider?



LOCAL PHONE COMPANIES

Bell Atlantic, Ameritech, and others want the right to provide long-distance service and interactive video services. A big question: Who pays for rewiring the homes of low-profit rural and poor customers?

LONG-DISTANCE COMPANIES

AT&T, MCI, Sprint, and others want to keep local phone companies out of long distance until there is true competition in local phone markets. But just when is that market considered competitive?





ERNESTINE'S BIG DAY: LILY TOMLIN RINGS THE VICE-PRESIDENT'S BELL IN LOS ANGELES

But once you get past the generalities and ponder the particulars, you see how thorny the issues remain. In the end, everybody will have to give a little. The local phone companies, for example, agreed to open their networks in exchange for the right to sell now-prohibited services such as entertainment. Cable operators will open theirs in return for the chance to compete in the phone business. And both groups grudgingly agree with public-interest organizations that everyone must have access to the digital cor-

nucopia (table). Education is another hot issue. On the eve of Gore's speech, Bell Atlantic and Tele-Communications Inc. (TCI) announced that they will pay to wire 26,000 schools.

The bills now before Congress would allow local phone companies to manufacture equipment, provide long-distance services, offer TV programming, and compete with each other. Cable companies would be allowed to offer local and long-distance phone service. The key remaining restriction: barring local phone companies from buying cable operators within their regions, "to ensure that no single giant entity controls access to homes and offices," says Gore.

Even at the Jan. 11 Los Angeles confab, a veritable love-in attended by luminaries including Barry Diller and Michael R. Milken

(now an investor in interactive education), the tensions were not far from the surface. Indeed, even comedian Lily Tomlin's onstage appearance with Gore had an edge. Got up as Ernestine the operator, she asked if the new networks will be for everyone or just the "elite." Cable executives were openly leery of even the restrained government role Gore outlined. Said Time Warner Inc. Chairman Gerald A. Levin: "What I worry about is the unintended consequences of this type of legislation." Adds

John C. Malone, chairman of TCI: "The government should be mainly a cheerleader."

However, Washington's role will certainly go beyond waving pom-poms. It will have to. Take the concept of open access. Basically, it means that each company's network must be open and accessible in order to create true competition. Anyone who wants to provide a service, such as customized stock listings, over anyone else's highway "should be able to do it just by paying a fair and equitable price to the network provider," says Gore. In addition, Washington wants networks to be linked in such a way that information can flow seamlessly from one to another, creating a true national highway rather than a jumble of private roads. That means mutually compatible equipment and software at the interchanges.

PREDATORS? The Administration's stance is to leave the details for the FCC and local regulators to work out later. That has some players wary. Cable companies have built their industry on proprietary technology and have no history of either allowing third-party equipment to hook up to their systems or carrying everybody's programming. In a Jan. 6 speech, American Telephone & Telegraph Co. Executive Vice-President Robert M. Kavner likened cable companies to voracious beasts, eager to take advantage of those who offer services on their network. Kavner fears that the cable companies won't open their networks to new AT&T hardware or services (page 37).

Another issue that may require more than broad brush strokes from Washington is guaranteeing universal service to prevent creating a class of information have-nots among both the inner-city poor and rural residents. "We have to make sure we don't Balkanize the country," says House telecommunications and finance subcommittee Chairman Edward J. Markey (D-Mass.), co-

COMPUTER AND SOFTWARE MAKERS

Microsoft, IBM, Apple, AT&T, and others want the new interactive communications systems to be open to various hardware and software suppliers—in contrast to current cable systems.



MEDIA AND ENTERTAINMENT COMPANIES

Television and movie studios want to ensure the widest possible market for their programming.

PUBLIC INTEREST GROUPS

The Electronic Frontier Foundation and others want to make sure the Information Superhighway is more than a new marketing medium. They seek guaranteed access and lots of bandwidth for electronic town meetings.



CABLE-TV OPERATORS

They want to provide phone service over their lines. But they would like to avoid the common-carrier provisions that apply to local phone companies and mandate equal access to all program suppliers.

sponsor of one of the bills in the House.

Everyone favors universal access. But exactly what is it in the multimedia age, and who pays for it? These questions were easy in the good old days. Regulators required long-distance and business customers to subsidize money-losing service to rural and poor customers. But state subsidies won't work if local calling is opened to competition. New players could skim off the profitable customers. "The objective would be to ensure that companies are not allowed to cherry-pick the system and then leave the carcasses with the carcass," says Markey.

BINARY DUES. Congress and the Administration plan to avoid leaving road-kills on the Information Superhighway through a new scheme of subsidies and a new definition of basic service. The proposed legislation requires that every home and business get a digital line. That way, explains Boucher, "all services will be available in the homes that want them"—or, more precisely, to those who can afford to pay for them. But what about socially beneficial services, such as electronic access to libraries, that many people won't be able to afford? The legislation would require each service provider to pay a portion of its revenues into a pool, administered by an FCC-headed federal-state board. The money could subsidize those who can't afford to pay the full cost of whatever is defined as an essential service.

The concept has widespread support from industry. "The private sector is willing to work with the government on this," says Suzanne Tichenor, vice-president of the industry-backed Council on Competitiveness. "We recognize we have a social responsibility." But nobody has yet addressed a more fundamental question: Who will pay the cost—perhaps \$1,500 per home—to extend the high-speed network to such customers? And that, precisely, will comprise basic service in 2000? "What should be included?" asks Columbia University telecommunications expert Eli M. Noam. "Cellular phones for the poor? Nobody could go for that."

Some industry executives are already concerned about the subsidies. "The government can go too far in insisting on too large a tax to fund access for everyone," says Edward R. McCracken, CEO of Silicon Graphics Inc. Asks AT&T CEO Robert E. Allen: "Why should AT&T long-distance customers be paying for some support for people who otherwise

couldn't afford local service?" Allen raises another concern: "Who's going to play God as to who's going to be entitled to universal service and at what price?"

When it comes to crucial particulars like these, the Clinton Administration "has not delivered yet," says Noam. "I'm waiting for them to move beyond generalities." The FCC's Hundt, for instance, declines to specify exactly when and how local phone companies will be allowed to go into long distance. In part, this vagueness is intentional. "Any legislation must have the flexibility to deal with changing technology and market structure," explains a key White House telecom official. Another concern: Writing overly specific rules could touch off a treasure hunt for loopholes. That hap-

pened with the 1993 cable reregulation bill. Cable companies obeyed the letter of the law, but flouted its spirit, which was to hold down price increases.

Companies have another set of worries. Timing, for one. H. Laird Walker, U S West Inc.'s vice-president for federal relations, wants barriers to come down "yesterday," he says, so that U S West can start competing with cable and long-distance operators. Those companies want to wait. John R. Alchin, senior vice-president of cable operator Comcast Corp., argues that phone companies should be kept out of cable in their local area until cable companies win a substantial share of the phone market. AT&T's Allen argues for delaying the Baby Bells' entry into long distance until there's true local competition.

At this point, the Clintonites are being careful to accommodate all views. On Jan. 6, for instance, Commerce Secretary

Ronald H. Brown announced the formation of a 27-member advisory council made up of such industry and media bigwigs as MCI Communications Corp. Chairman Bert C. Roberts Jr. and Robert L. Johnson, head of Black Entertainment Television Holdings Inc.

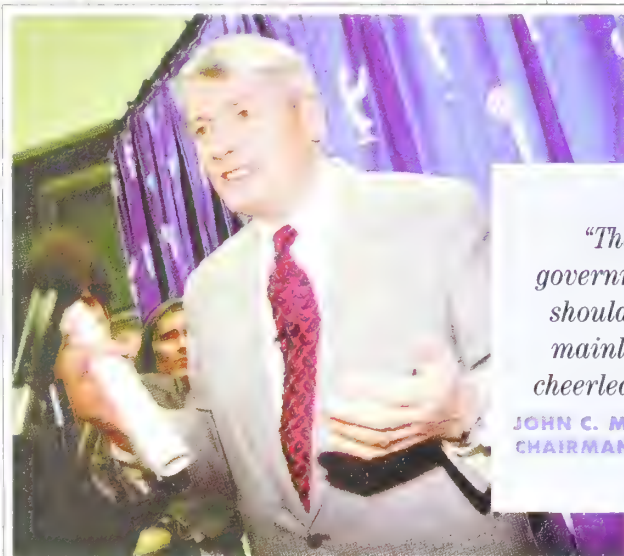
They'll have to work fast, though. Because

of the flurry of activity in the industry, including pending meg-

amergers, "it's now or never for legislation," says the EFF's Berman. The House has put the issue on the fast track, with enactment targeted by midyear, before health-care reform dominates the congressional agenda. "I think the bills will be on the President's desk by summer," says Boucher.

A swift overhaul of the 1934 Communications Act would be a momentous achievement. But both the opportunity and the risks are great. That's why Washington must work closely with industry on critical details—while still insisting that broad principles of competition, universal service, and open networks be uncompromised. What lawmakers do will have a profound effect not only on the shape of the highway but on how effectively the U.S. economy uses technology in the new century.

By John Carey and Mark Lewyn in Washington, with Ronald Grover in Los Angeles, Bart Ziegler in New York, Joseph Weber in Philadelphia, and bureau reports



"The government should be mainly a cheerleader"

**JOHN C. MALONE,
CHAIRMAN OF TCI**

pened with the 1993 cable reregulation bill. Cable companies obeyed the letter of the law, but flouted its spirit, which was to hold down price increases.

The lack of specifics in the new regulations has both advocacy groups and companies agitating behind the scenes. Consumer groups fear that equating universal access with a digital line into every home misses the point. Nearly every existing phone wire can carry digital signals; what counts is whether the line can support true interactive video, and what services it brings in. Unless everyone gets high-capacity links, frets the EFF's Berman, "we could end up with islands of digital nirvana instead of a national highway."

Worse, these islands might be connected only by one-way bridges. "It's hard to have a true information market when you have a big highway to homes and offices and little roads coming back," says Michael L. Dertouzos, director of Massachusetts Institute of Technology's Laboratory for Computer Science. Such

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THEY CAN'T WAIT TO SERVE YOU

Mainframe makers hope to cash in on the digital video market

On Jan. 12, Bell Atlantic Corp. gave makers of large-scale computers a shot in the arm. The Philadelphia-based Baby Bell announced that it will spend some \$25 million for three new supercomputers plus software to build a first leg of the Information Superhighway. Two companies—nCUBE Inc. in Portland, Ore., and software maker Oracle Systems Corp. in Redwood City, Calif.—will share the spoils. But all makers of “big iron” are celebrating. With the Bell Atlantic deal, a new market is opening: giant servers to feed digitized movies, home shopping, games, and other interactive multimedia services to homes across the country.

Makers of mainframes and supercomputers see this as the start of a bonanza—and they could use one. Last year, mainframe sales fell 9%, on top of a 1% decline in 1992, according to International Data Corp. Sales of minicomputers priced at \$1 million and up are shrinking by 20% annually. And massively parallel supercomputers have been slow to catch on. So the companies are refitting mainframes, adding new software to supercomputers—and designing all-new, specialized “video servers” to feed the coming interactive-TV market. That business could be “the basis for the revival of big iron,” says Forrester Research Inc. computer analyst William M. Bluestein. “The joke here is interactive TV is a plot by the computer industry.”

SERVICE CENTERS. Still, it's a gambit that could be tricky to play. By itself, say analysts, the business of equipping cable and phone networks with video servers may never be more than a \$3 billion market—just 1% of today's worldwide computer market. But selling servers for movies on demand could help develop other markets such as business-based information services. Puzzled factory workers, for instance, could call up video clips to brush

up on difficult assembly procedures. Between the Information Superhighway and business markets, Digital Equipment Corp. officials reckon that by the year 2000, some 10% of its revenues will come from giant servers.

Video servers could also spark huge service revenues. For instance, DEC envisions setting up media service centers around the country to help retailers create video-shopping services. DEC Media

Business Segment Managing Director Robert L. Griffin estimates that for every \$1 of video-server sales, there could



PUTTING DIGITAL VIDEO AT YOUR FINGERTIPS

VIDEO SERVER

This computer would store hundreds of feature movies, digitally compressed to about 2 billion bytes each. Movies would be transmitted to thousands of homes at a rate of about 200,000 bytes a second. Expected price: \$1 million.

HOME CONTROLLER BOX

A small, specialized computer, it would store a frame or two of incoming video signals, then decompress them into standard video signals. It might also handle home shopping and other “interactive” features. Expected cost: \$200-\$300.

DATA: BUSINESS WEEK



up to \$7 in related services. IBM and American Telephone & Telegraph Co. also have a lot of service and networking experience, which puts them in a good position for this market.

And computer makers are eager to supply other pieces of the Information Superhighway. Hewlett-Packard, DEC,

and IBM are vying for contracts in the \$500 million cable-TV-converter market, either supplying chips or selling complete boxes. They are trying to forge relationships with traditional cable-box suppliers Scientific-Atlanta, General Instrument, and Philips. Other computer-industry players such as Silicon Graphics, Intel, Microsoft, and British chipmaker Advanced RISC Machines have the same idea.

Video servers could prove tough for even DEC and IBM. In digital form, a feature film takes 2 billion characters, or bytes, of computer storage. Just a few dozen of the tapes in any video store would, if digitized, exceed the 100 billion bytes or so used by the largest airline reservation systems. And unlike, say, banking transactions, video data streams can tolerate no more than microscopic delays in transmission. “You can’t afford to have the ballet look like break dancing,” says Tony Ruiz, senior manager for communications systems at IBM’s T.J. Watson Research Lab.

CHEAPER BY THE DOZENS. That’s why many players are insisting that only a massively parallel machine—such as the nCUBE machine selected by Bell Atlan-

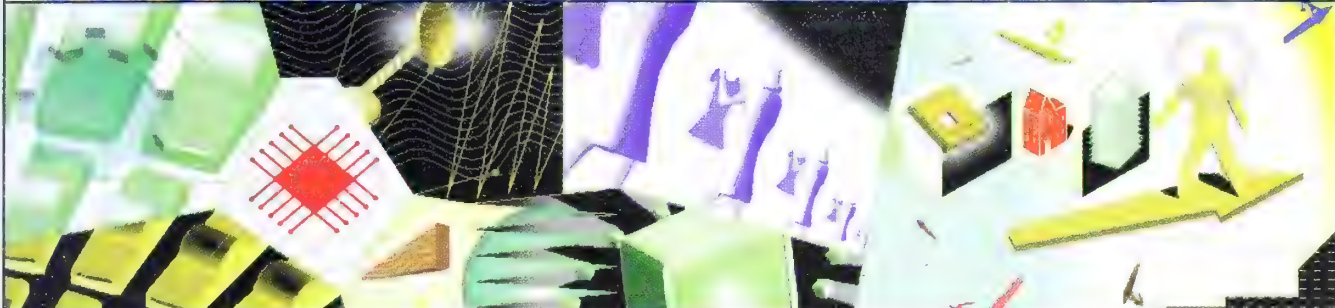
tic—will do. These systems use thousands of processors, each with its own memory. Video servers “will all be massively parallel computers,” predicts Oracle Systems Chief Executive Lawrence J. Ellison, who also is part-owner of nCUBE. Bell Atlantic Large Business & Information Services Group President Stuart C. Johnson adds that massively parallel machines can be more easily expanded as demand grows.

But no one can be counted out yet. IBM has snared server contracts at Ameritech, Cox Communications, and Bell Atlantic while DEC has captured U.S. West, Rochester Telephone and Canada’s Stentor, a consortium of nine telephone companies. Phone companies figure that scattering dozens of video servers will be cheaper than deploying one massively parallel machine.

Whichever type wins, consumer services such as movies on demand will continue to be the focus of the hoopla for now. With cable systems in 60 million homes—and with an additional 30 million that could be added—couch potatoes look like a mighty appetizing opportunity.

By Gary McWilliams in Boston, with Robert D. Hof in San Francisco

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JOHN NOBLE: TO HELL AND BACK

The ex-gulag prisoner revives his family's Dresden camera factory

Sipping peach tea in the parlor of his 19th century castle overlooking Dresden, American-born businessman John Noble has slipped into a quiet but forceful denunciation of communism. His eyes narrowing beneath his shock of white hair, the 70-year-old president of Kamera Werke Noble is intent on warning other Americans how lucky they are. If he comes off a bit preachy, he might be forgiven. Noble's avid embrace of capitalism came only after experiencing the horror of the alternative—nearly 10 years of torture and starvation in a series of Soviet prisons.

Noble is one of countless Western businesspeople who have flocked to eastern Germany since the Berlin Wall crumbled in 1989. The rush is on to snap up property, tap new markets, and mine a population rich in highly trained engineers. But Noble's agenda is more complicated than most. While still a teenager, he helped his father build up a company in Dresden that pioneered the manufacture of single-lens reflex cameras. Trapped during World War II, they survived the Nazis only to be imprisoned after the war

by occupying Soviets who were supposedly U.S. allies. "I'm here to build up the business that Dad started," Noble explains softly. "The other side cannot get away with such an injustice."

NO WAY OUT. Simply put, Noble is out to settle a score. Unable to reclaim the years lost as a Russian prisoner, he has vowed to profit where his nightmare began. So far, so good. In 1991, he started a company in his father's old factory

panorama camera with a lens that rotates 360 degrees. After rave reviews, Noble shipped 1,000 of the \$2,500 cameras in the year ended September, 1993. Now, he offers a high-speed version and will put four other models on the market this year, including a more affordable one. He also has branched into optics and medical equipment (chart).

But for Noble, returning to eastern Germany has been a difficult flashback. Not only has he had to wade through a

swamp of post-Communist bureaucracy, but he has had to wrestle with his own dark memories. "It was a scary thing for him to go back," confides his wife, Ruth Noble, who still lives near Philadelphia and commutes to Dresden.

Noble first arrived in Dresden from Detroit in the spring of 1938 with his German-American parents and his brother, George. His father, Charles Noble, suffered poor health from chemicals used in his photo-finishing business so he sold that company and bought another in Dresden to be near German hot springs. When war erupted, the Germans stationed guards at the family's camera factory but allowed production

to continue. A Swiss-brokered exchange of nationals between Germany and the U.S. nearly got the Nobles out, but at the last minute they were inexplicably turned back at the border.

The story from there is the stuff of Solzhenitsyn. Shortly after the war ended, Noble and his father traveled from Soviet-occupied eastern Germany to the West to buy lenses and consult with the U.S. military command about getting out. Their advice: Sit tight, the Soviets



are our allies. Unfortunately, a cold war mentality had gripped the East long before it poisoned global relations, and the Nobles came home to find Soviet troops sitting in their living room. The two were branded as spies and hauled off to prison. Noble's mother, Hildegard, and George, his brother, were held in their villa as decoys to draw out other Americans and their sympathizers who might come by to visit. "I tried to shock people away from the window," George says, wincing.

BORN AGAIN. In Dresden, prison guards methodically starved their inmates: two days without food, three days with, then 12 more without. Although they started out cursing, Noble's fellow prisoners soon started dropping. Noble, never one for religion, became devout. "I wasn't sure I had the right to call on the Lord," he says. "I had never even thanked Him for all I had." One day, when he couldn't lift his feet or even speak, Noble closed his eyes and gave up. "Suddenly," he says, "I could walk and talk and felt like singing. The Lord gave me strength to endure."

As father and son were shuttled among prisons in eastern Germany, John quickly learned Russian and managed to secure good jobs, such as working in the kitchen. He kept his father alive by sneaking him extra pieces of bread. But Noble also withstood 23 days in solitary in a blazingly lit cell next to a furnace. Locked in another small room for six months with nine men and a slop bucket, he kept them sane by organizing a daily routine of exercise, two-hour book reports, and periods of silence. Withering to less than 100 pounds, he was reduced to stealing rare bits of newspaper for toilet paper and counting the number

A SNAPSHOT OF KAMERA WERKE NOBLE

PHOTOGRAPHY

- ▶ The Noblex—a professional rotating-lens panorama camera
- ▶ Panorama projectors
- ▶ Large-format shutter systems for studio cameras

OPTICS

- ▶ Prisms and coated mirrors for microscopes, binoculars, measuring equipment, and cameras

MEDICAL EQUIPMENT

- ▶ Machines used to provide warmth therapy in cancer treatment



THE NOBLEX CAMERA CAPTURES THE BOSS IN A PANORAMA OF DRESDEN

of bodies hauled away—200 one Christmas day. “It was impossible to block out the screams,” he recalls.

Noble’s family, meantime, had no word of him or his father. After leaving Dresden in February, 1946, George bargained U.S. senators and government officials with petitions, but Moscow continually denied holding the Nobles prisoner. George joined the U.S. military and secured a post interviewing German prisoners returning from Russian camps, but heard nothing. His mother moved to Berlin to be as close as possible and stayed until her husband was released in 1952. Still no word of John.

By then, their son had been transferred to Siberia. In August, 1950, when he finally was called before a Soviet officer, he expected to be released. Instead, he was sentenced to 15 years at Vorkuta, a coal mine and labor camp near the Arctic circle. He had no lawyer and was never told of the charges. Not until 1990 did he learn that Directive 8, the law under which he had been sentenced, covered everything from negative thoughts to assassination.

LOW AND ICE. Noble’s six-week journey to Vorkuta took him right through Berlin. Hundreds of prisoners were hidden in a mail train that then ran through Poland. In Moscow, they switched to a rickety, vermin-infested cattle car and subsisted on a diet of dried bread, fish, and water. Half dead, they were discarded onto a tundra of snow and ice.

At Vorkuta, thanks to his Russian, Noble was assigned to the senior officers’ cloakroom, where he stayed relatively warm and dry. After Stalin died, however, the Vorkuta prisoners grabbed the chance to revolt as the KGB and the Red Army battled for power. The uprising

was viciously crushed, ringleaders were shot, and accomplices like Noble, who had diverted the officers, were marched five miles across the snow to another camp, where he worked outside unloading lumber. “That’s when it seemed all was lost,” Noble says.

In June, 1954, Noble’s luck finally turned. He smuggled out a postcard to German relatives through a barber in the camp who had writing privileges. The words “your noble nephew” armed his parents with evidence their son was alive. Back in Detroit by then, they appealed to a Michigan congressman who met with President Dwight D. Eisen-

The inmates were methodically starved: Two days without food, three days with, then 12 more without

hower on the matter. Before anyone could mull the diplomatic consequences, the congressman called an unauthorized press conference trumpeting the President’s involvement. That forced Eisenhower’s hand, and he leaned on Moscow authorities. In January, 1955, at the age of 31, Noble was at last released.

Noble believes he survived for one reason: “To remind Americans how much we take our freedoms for granted.” After mapping out the camps and identifying other prisoners for U.S. authorities, Noble began spreading his story. He gave hundreds of speeches in the 1970s and wrote three books. As money grew tight and his family expanded to five children,

he reluctantly set up an Amway distributorship. It prospered. “I was trying to save the country,” he says, laughing. “I had no intention of selling soap.”

Then the Wall fell. Although he had spent years petitioning Soviet bloc authorities for restitution, Noble didn’t exactly rush back to Dresden in 1989. It wasn’t until a good friend bought him a ticket that he felt compelled to return—with George by his side. Germany had yet to be unified, and the brothers’ blood curdled at the sight of Soviet uniforms. But when Noble inspected the remains of his father’s factory, he couldn’t resist the pull. “Those machines were like a heartbeat to me,” he says.

Deciding to return was the easy part. The next step was to regain control of the company and its well-known Praktica trademark. Defeated in a court of restitution because the original camera had evolved into something new, Noble tried to buy the company from the Treuhand, the German agency set up to privatize former state-owned businesses. Noble rounded up investors and committed \$700,000 to order parts, only to discover the Treuhand had sold the factory equipment and the trademark to someone else. All that was left were the buildings and some research equipment. The trademark gone, his financial backers backed out.

The battle turned ugly. George Noble claims Treuhand officials “cheated and lied to us.” The Nobles are taking the agency to court to recover the \$700,000. Ludwig Tränkle, a Treuhand director in Berlin, counters that Noble didn’t understand the process and should have hired professional lawyers instead of using his German cousin to negotiate. “What Mr. Noble does not want to be-

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lieve is that we gave him all he deserves according to the law," says Tränkner.

The setback may have been a blessing in disguise. Managed for years by state authorities, Praktica had become a cheap global brand. It is a camera for amateurs, with no outstanding features. Without the disregard for profit enjoyed by the communist manufacturers, "the Nobles wouldn't have had a chance in this market," says Volker Storek, editor of the German trade journal *Inpho*. By collateralizing the factory and the family's castle (which they were able to reclaim), the Nobles raised \$2 million from banks to launch the Noblex. It was designed by a team of 40 engineers culled from the old ranks. Says Storek: "The technology is excellent."

VIABLE IDEAS. Noblex sales are brisk, but since Kamera Werke Noble's total revenues add up to just \$3 million, the boss has encouraged his team to branch out. The east Germans were wary at first. Noble started out with a harsh lecture to applicants on the value of hard work and his scorn for unions. They only warmed up to him when they realized he pays well, allows flexible

**"What Mr. Noble does not
want to believe is that we
gave him all he deserves
according to the law"**

work hours, and, most important, provides an intellectual freedom they had never experienced. "I had ideas before but they were just ideas," says engineer Berto Kirsh, who worked for the old company for 36 years. "Now, they come to life."

Word of Kamera Werke Noble's technical capabilities is quickly spreading. A western German laboratory has commissioned it to build warmth therapy equipment for cancer treatments. Spezialtechnik Dresden, a sister company of San Diego-based General Atomic Inc., is testing whether the panoramic camera is suitable for U.S. Defense Dept. reconnaissance projects. "It's clear Mr. Noble and his team know what they're doing," says Peter Mäussnest, Spezialtechnik managing director.

Noble's chief goal, however, is to reclaim a slice of the camera market lost to Japan. "Dresden is the birthplace of the camera industry," he says. "I'm doing my best to bring it back." That wouldn't make up for lost time. But thriving the former East bloc would do a lot of set things right.

By Karen Lowry Miller in Dresden



CLEANING UP AFTER WASTE MANAGEMENT

The Street sees a hot-growth has-been, but don't count WMX out

For more than a decade, WMX Technologies Inc. was the quintessential growth stock. WMX—formerly known as Waste Management Inc.—fed profitably off the never-ending stream of refuse generated by modern life. But the '90s are proving a lot more difficult: The Oak Brook (Ill.) company has been battered by a sluggish economy, improved corporate waste-reduction programs, and a cutback in industrial-cleanup work as the Clinton Administration thinks its environmental policies. Add it all up, and WMX is no longer the hot item it once was on Wall Street. In the 1980s, WMX's profits and revenues rose by a compound average annual rate of 28% and 25%, respectively. Last year, the company's earnings dropped an estimated 7%, to \$790 million, on sales growth of just 5%, to \$9.1 billion. Although its stock price has crept up lately, WMX is trading at 29%,

roughly 28% below where it was a year ago. That year-long drop slashed a staggering \$6 billion from the company's market value, to \$14.2 billion.

Despite the decidedly unfriendly climate for waste-management companies, WMX Chief Executive Dean L. Buntrock has crafted a comeback plan. He is slashing costs and downsizing key units. At the same time, Buntrock, who co-founded WMX in 1968 along with H. Wayne Huizenga, now CEO of Blockbuster Entertainment Corp., is scouring the globe for new business. At home, WMX is expanding aggressively into new waste-management areas, such as water treatment. And it's chasing new contracts in Eu-

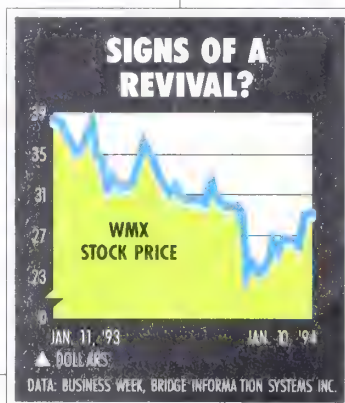
rope, Latin America, and Southeast Asia, where environmental regulations are tightening. "We've disappointed investors," acknowledges Buntrock, 62. "To gain back that credibility, we have to deliver the results that we say we're going to."

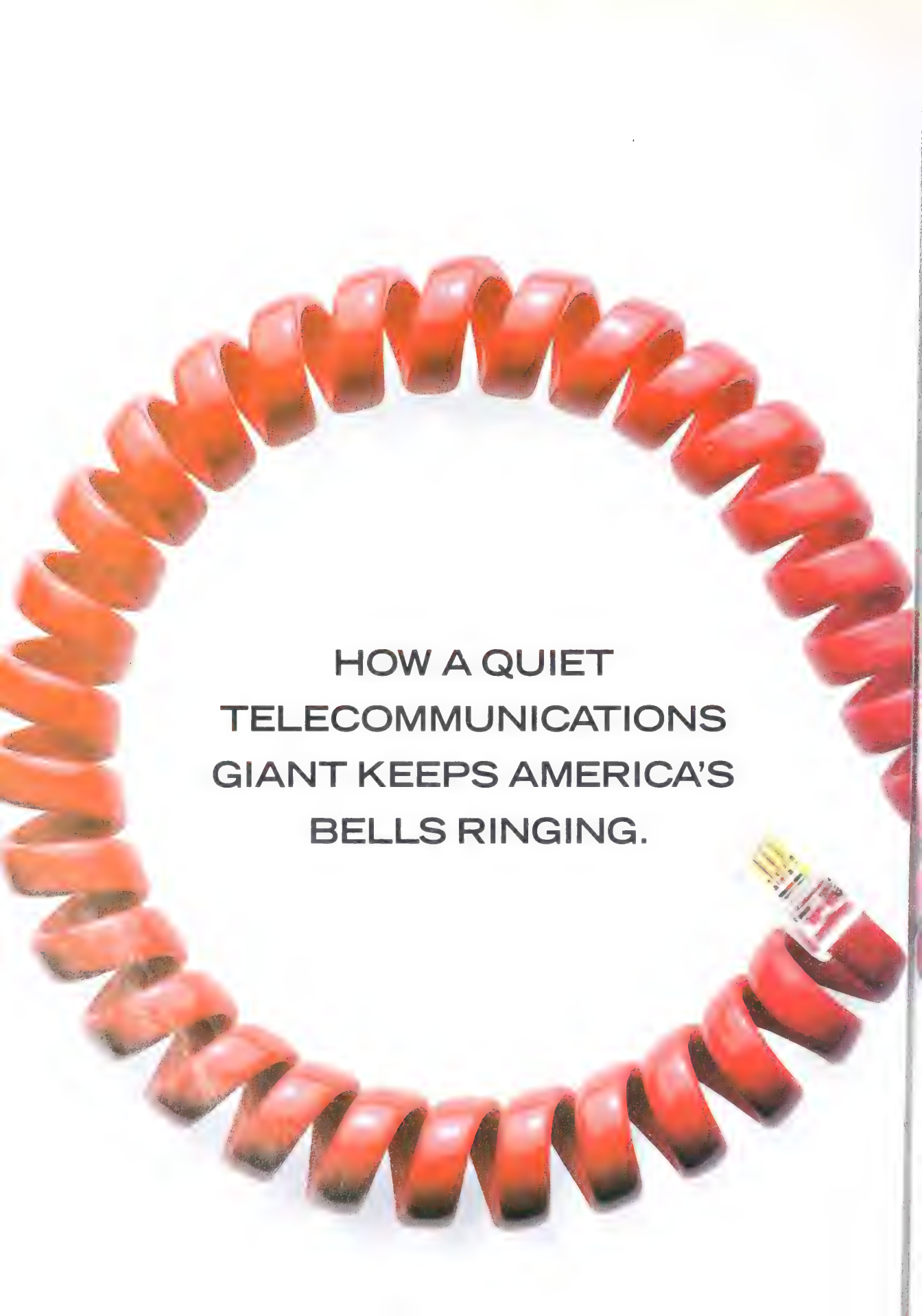
NAME GAME. Last year, Buntrock took a stab at trying to improve results by completing a complex reorganization that split WMX into five publicly traded units with extensive cross-ownership. They include WMX, the holding company that controls each of the units. WMX also owns all of Waste Management of North America Inc., which collects and disposes solid waste and operates landfills. It accounts for 60% of WMX's revenue. The other units are Chemical Waste Management, which disposes of hazardous waste; Wheelabrator Technologies, which builds energy plants that use waste as fuel; Rust International, an environmental consultant and general contractor; and Waste Management International, a London-based unit that oversees business outside North America.

Buntrock believes the sweeping restructuring enabled WMX's varied businesses to sharpen their focus. It also let shareholders pick and choose which environmental industries to invest in. Still, the glory days won't return quickly or easily for WMX. The downturn in the economy has meant weaker industrial production, thus smaller amounts of industrial waste. At the same time, big manufacturers, responding to stricter federal regulations, have dramatically cut the amount of pollutants they create.

Now, there's added uncertainty over the once booming hazardous-waste business as Washington reviews its stand on incinerators. Last May, Environmental Protection Agency Administrator Carol M. Browner ordered an 18-month freeze on new hazardous-waste incinerators. Some industry insiders worry that the Administration may opt for a new disposal technology or push for more hazardous-waste reduction.

To adapt to leaner times, Buntrock is restructuring his biggest units. The reorganization at Chem-Waste, 78% owned by WMX, has been the most painful. Last year, the company took a \$550 million charge partly to slash 1,200 workers—24% of its work force—and to write off the value of its Chicago incinerator. The plant, closed since



A red coiled telephone cord is arranged in a large circle, framing the central text. The cord is bright red and has a standard coiled design. At the bottom right, a small portion of the cord's connector is visible, showing a yellow and white plastic housing with metal contacts.

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a 1991 explosion, has been investigated by regulators to determine if it had proper safety procedures.

Buntrock is trying to keep the unit's other incinerators on line, in part by lobbying Washington to toughen regulations on companies that operate cement kilns. The kilns burn hazardous waste, along with other fuel, but aren't required to dispose of the

remaining ash as if it were a hazardous material—giving them a cost advantage. In November, Buntrock arranged a meeting of the EPA's Browner and commercial incinerator operators. EPA officials say the regulation of cement kilns is being addressed in its broader review of incinerators.

Lobbying aside, Buntrock knows he has to drum up new business to get WMX growing again. Already, he has his sights on the estimated \$200 billion that Washington is expected to spend through 2020 to clean up decommissioned nuclear plants, defense factories, and other government facilities. WMX's Birmingham (Ala.)-based Rust International has so far won only two such contracts, worth \$350 million. But the company has outstanding bids on \$6 billion worth of federal cleanup work.

LONGER LIST. Wheelabrator, 58% owned by WMX, appears to have clearer prospects. Now that the demand for waste-to-energy plants has cooled in the U.S., the company is pushing into the fast-growing water-treatment business. This year, Congress is expected to revise the Clean Water Act, increasing the number of pollutants that municipalities and businesses must reduce. What's more, the EPA is already pushing for tougher drinking-water standards. Wheelabrator President John M. Kehoe Jr. believes the 1990s will be "the decade of water."

To position itself, Wheelabrator has been buying water-treatment companies. Over the past three years, it has purchased 10 of them. The company is also offering to build and operate water-treatment plants for cash-strapped municipalities that can't afford \$10 million to \$30 million to build such a facility.

Yet the biggest hopes rest overseas, where WMX estimates that some \$300 billion is spent on environmental services every year. Last year, the company generated only \$1.5 billion from foreign projects. In Europe, WMX is betting that European Community initiatives to

WMX'S COMEBACK STRATEGY

- RESTRUCTURE** It's cutting costs and downsizing key units. At Chemical Waste Management, WMX has slashed 1,200 jobs—24% of the work force. The company has also written down the value of one of its big incinerators.
- DIVERSIFY** WMX is expanding aggressively into new businesses. Through its Wheelabrator Technologies unit, the company is marketing new water-treatment services and building treatment plants.
- GROW ABROAD** It's looking for more business in Europe, Latin America, and Southeast Asia, where environmental regulations are tightening.

set continentwide standards on environmental issues such as landfill construction will spawn new business. But the real promise is in the Pacific Rim, where torrid population and economic growth is spurring environmental concern. WMX already operates a hazardous-waste facility for Hong Kong and is bidding on six waste-to-energy plants in Taiwan. "Our business is still significantly tied to population, and the population in Asia—where they still don't

have basic sanitation in many places—expands that big opportunity greatly," says Buntrock. "There's no doubt it will be our fastest grower." Of course, there are risks: Waste Management International's sterling-denominated profit growth last year was wiped off of WMX's books because of the strengthening dollar. To some degree Buntrock's strategy is

changing the market's perception of WMX. Analyst James D. McDonald of Chicago Corp. says WMX's profits this year may rise to 10% above his estimate for 1993, to \$871 million, as its revenues climb 13%, to \$10.3 billion. Even Buntrock concedes that the boom days are over. But that doesn't mean WMX has stopped growing. If he's right, Buntrock will prove that WMX can climb out of the dumpster.

By James E. Ellis in Oak Brook, Ill.

COMPENSATION

MEET THE SUPERLAWYER WHO MAKES CEOS RICH

Joe Bachelder speaks softly and wins big checks

What do IBM's Lou Gerstner, Eastman Kodak's George Fisher, Westinghouse Electric's Michael Jordan, and AlliedSignal's Larry Bossidy have in common—besides, that is, their corner offices and jaw-dropping pay packages? They all owe those big salaries and rich perquisites to the negotiating ability of Joseph E. Bachelder III.

The 61-year-old Manhattan lawyer is a celebrity in executive suites these days. Thanks to a banner year, in which he represented Gerstner and 74 other executives, word of Bachelder's prodigious skill has spread, establishing him as a significant behind-the-scenes presence in Corporate America. "Everybody knows about Joe at a certain level in business,"

says one client. "He's become quite the person to go to for this sort of thing."

And what sort of thing would that be, exactly? Bachelder got that client, the chief executive of a well-known company, an extra year of employment guarantees and secured \$1 million worth of stock options as well. "There is no one else in his league," the happy CEO says. And despite fees that can top \$100,000, Bachelder is in such demand that he turns away about a third of those who try to hire him.

"AMBULANCE-CHASING." Few outside the upper echelons of business have even heard of Bachelder, but he has succeeded in establishing stratospheric executive-pay standards. And that has placed him at the center of the debate over excessive pay. "The nation's bellwether companies look to [his deals] as the reference point," says Michael Davis, who runs the compensation practice of Towers Perrin. Bachelder hasn't single-handedly caused the recent steep rise in pay of course—but he has helped fuel it.

Bachelder didn't start out to be a

"There is no one else in his league," according to one satisfied client

The Business Week/Deloitte & Touche Health-Care Summit

AMERICAN BUSINESS AND HEALTH-CARE REFORM: PANACEA OR PREDICAMENT?

Thirty-seven million Americans do not have health insurance. In a nation where 100% of the people are entitled to the counsel of a lawyer, 14% are not entitled to the treatment of a doctor. Having proposed an exhaustive bill to Congress, President Bill Clinton hopes to bring the U.S. in line with Canada, China, Japan, Singapore, and all the industrialized nations of Western Europe in providing comprehensive coverage to all.

Leading figures of the health-care debate convened in Washington for The Business Week/Deloitte & Touche Health-Care Summit. The meeting was made possible by the co-sponsorship of Rhône-Poulenc Rorer, Inc., Varian Associates, Inc., and Wharton Executive Education. The Summit was principally designed to identify probable impacts of health-care reform on the business community.

TAKE TWO AND CALL ME IN 1998

President Clinton's mandate that employers pay 80% of the average health insurance premium for each full-time worker will injure some businesses and help others. Executives of large companies are wary about the structure of the "health alliances" the president envisions. Everybody in the country — from the homeless to the president himself — would belong to one. With respect to cost, companies with generous health plans expect to benefit from the Clinton reforms. When a company's total

outlay for employee health benefits is in the billions of dollars, a decrease of several percentage points can translate into huge savings.

A trade-off arises, however, as large companies yield control to the government mandated health alliances. Although they warmly embrace the 7.9% limit on health benefit expenditures, large companies with a lot of buying power cannot help but think they may be better off staying clear of a government controlled program. Small companies that do not currently provide health insurance to their employees will

likely be hurt as costs shift to them for the first time. "By banding together, small businesses will have leverage. As a result, they can secure better deals with HMOs and insurance plans," says **Gail L. Warden**, president and CEO of Henry Ford Health System. "Administrative costs will be low for small businesses due to economies of scale and I also think discounts and subsidies will be available. These will benefit small businesses."

The employer mandate proposed by the President may result in some lost jobs as small businesses scramble to deal with the sudden rise in costs due to new health insurance bills. But jobs will also be created. **Dallas Salisbury**, president of the Employee Benefit Research Institute, predicts that the job growth will be relatively insignificant, "As a result of the Clinton package, there will be either 2.9 million jobs lost or 660,000 jobs gained." The govern-



ROBERT GO
MANAGING DIRECTOR,
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"If a nation moved to an all HMO-type system, an estimated savings of 15% to 30% could be realized on typically covered benefits."

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ment estimates an approximate 600,000 figure for both outcomes.

The transition to a reformed health-care structure is already underway. During the reform run-up, most companies are opting for managed care programs such as HMOs to rein in skyrocketing health-care cost increases. **David Lawrence**, Chairman and Chief Executive Officer of Kaiser Foundation Health Plan and Hospitals, says "the growing skills of most health-care competitors and the intense pressures on purchasers have created a situation in which the health sector is undergoing a true reform, a true transformation unparalleled in pace and scope. And it is market driven, not public policy driven." **Robert Go** of Deloitte & Touche agrees: "This is reform without legislation. Legislation will accelerate the process, but reform is already underway." Although Go acknowledges that some HMOs are simply discount fee-for-service plans, he is optimistic about managed care as a source of future efficiency. "If a nation moved to an all HMO-type system, an estimated savings of 15% to 30% could be realized on typically covered benefits." Unlike fee-for-service providers, HMOs can effectively reduce unnecessary procedures and treatments. The result is lower health care costs. With its roots in the present, managed care appears to be the wave of the future. The more prudent businesses have already acted on their available options. They cannot afford to wait for legislation



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*"To manage or
to be managed...
that is the question."*



IRA MAGAZINER
SENIOR ADVISOR
TO THE PRESIDENT
ON HEALTH CARE

*"Contribute your ideas
to the debate."*

GET ME A COST SUPPRESSANT

High costs do not necessarily translate into profits for providers. Despite a trillion dollar revenue base, rampant inefficiency has robbed many health-care providers of a profit. Besides addressing coverage, reform seeks to contain costs. This will keep up the pressure on health-care providers to do more for less, no matter who wins in congress.

Ira Magaziner, senior advisor to the President on health-care reform invited the Business Week/Deloitte & Touche Summit audience to "contribute your ideas to the debate. Refining the President's plan will be a long process involving input from many sources, with plenty of fine tuning along the way." On the cost issue, Magaziner says he sees the performance of other countries as a challenge to the United States. "If I went into your company and found a situation where you had foreign competitors, and every one of them was delivering a broader range of products with as good quality, for 60% less cost than you incur, I might suggest to you that you can do better."

With health-care expenditures accounting for over 14% of GDP, the United States easily outspends Japan and the United Kingdom (7%), France and Germany (9%), and Canada (10%). "By any study, they deliver a more comprehensive set of benefits than we do," Magaziner continues. "Surely, we can do better."

To reduce costs, health-care executives agree that quality must be

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raised. Performing a procedure or giving treatment safely, correctly, and thoroughly the first time results in fewer complications and minimizes repeated dealings with the same problem — reducing costs.

Measuring quality, however, is still a considerably flawed process. Insufficient data and inadequate information retrieval systems are the prime culprits. "You cannot manage what you cannot measure,"

says **Richard Levy**, executive vice president and director of research at Varian Associates; he strongly advocates patient feedback with regard to likes and dislikes of the system. In Georgia, patients are more heavily involved in the health-care debate than elsewhere, thanks to the efforts of Georgia Health Decisions, a not-for-profit, non-partisan organization dedicated to bringing forward the public voice. **Beverly Tyler**, the organization's Executive Director, explained that "we recognize that one of the reasons for the crisis in health care is because the industry is out of touch with its consumers. I do not know of any other industry that provides a product or services that does not on a regular basis get a touch with its customers and ask how their product or service is being received."

The Clinton administration plan is cost cutting as a central criterion. The administration has raised concern among health-care executives with its proposed health alliances. Fear is running high concerning the impact of alliances on the health-care industry. But according to **Walter Zelman**, President Clinton senior administration health policy advisor, the government is merely trying to ensure choice among consumers and "manage competition" by setting up an equi-

table playing field for providers to compete upon. Says Zelman, "The alliances are necessary. They will not be a huge government morass. They will be a mechanism of choice." The health sector remains skeptical, fearing over-regulation. **Richard L. Scott**, chairman and CEO of the giant Columbia Healthcare Corporation, says, "I am very uncomfortable with the idea of statewide large employer alliances. I am

IF I WERE PRESIDENT...

The Business Week/Deloitte & Touche Health-Care Summit is a gathering of leaders from the broadest possible cross-section of the national health care debate, including representatives of every group: large employers, small employers, employee organizations, hospitals, health maintenance organizations, doctors, pharmaceutical companies, health care technology companies, hospital suppliers, insurers, state governments, patients' organizations — all the entities that provide, pay for, and receive the billions of dollars worth of health care America consumes each year.

Having such a group together for two days offered a unique opportunity to poll those at the frontlines of the debate on their opinion of health-care reform in general and the Clinton administration proposals in particular. Business Week and Deloitte & Touche called on the in-hall polling services of Quick Tally Interactive Systems of Beverly Hills, California. Here are the results:*

Do you favor some type of health care reform? Ninety-two percent said yes. Have you read the president's health plan? Seventy-one percent said they had.

Would you vote for the Clinton administration plan today? When asked at the beginning of the conference, 85% answered no. When the

question was asked again following 90 minutes of open discussion with Dr. Walter Zelman, senior Clinton administration health policy advisor, the "no" vote fell to 75% of the room. But when asked again at the end of more than 12 hours of conference sessions, the "no" vote tallied 97.1%

How will the administration's version of "managed competition" actually perform? Two percent thought "very well," 17% said "ok," 70% predicted "significant problems," and 11% declared that they think it "will not work at all."

What sort of health-care reform would you prefer? Ninety-four percent voted for managed competition, but only 2% liked the Clinton version. Thirty-three percent preferred "pure managed competition," and 59% preferred "light managed competition." Four percent chose "single payor," 2% the status quo. Will health-care reform help or hurt health care? Sixty-six percent answered "hurt," 22% answered "help." Twelve percent say that when all is said and done, they expect the impact of health-care reform on health to be "neutral."

* Not a scientific sampling of the named demographic groups. Over 70% of those voting were either senior executives of large hospitals or senior benefits-responsible executives of large corporations.

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afraid they are going to have monopolistic power.”

William L. Kissick, professor of health care management at The Wharton School, says “I think Hamlet understood the issue of managed competition when he said ‘To manage or to be managed... that is the question.’ In light of the ultimate dilemma of medicine — infinite need versus finite resources, a dilemma whose answer I have not found in 25 years of searching — I do not think managed competition is the answer. But I do think we have to get underway.”

LOWER COSTS, LOWER PROFITS — LESS RESEARCH

Advancing technology and a rapidly increasing elderly population needing more care have pushed the rate of growth in health-care costs. Given this demographic situation and the importance of technology, an alternative view of costs is that holding them to the level of the consumer price index is either not desirable, not possible, or both. “Looking at what technology has done to make people live healthier and better lives, I pose this question,” says **Leon C. Hirsch**, Chairman, President, and CEO of U.S. Surgical Corporation. “If I said that you could live another healthy twenty years of a productive life where you felt good, but it would cost you an extra two, three, or five thousand dollars a year, honestly, would you say, ‘No, it’s over the inflation rate?’”

Richard Levy of Varian says the reforms envisioned will definitely curtail the research efforts of pharmaceutical and medical device corporations. “Many of our customers are struggling. Hospitals are closing, profitability is down, layoffs are

occurring. If we’re going to have continuing innovation and advances in health technology in the U.S., we’re going to need health-care providers who have not only the will but the means to make discretionary investments in new technology. The proposals now on the table don’t appear to move us in that direction.”

UNCLE SAM VS. ADAM SMITH?

With the reform debate only now going into high gear, long-term forecasts are risky. “The goals for the plan are security, simplicity, savings, choice, equality, and responsibility,” says Dr. Kissick. “Are you willing to settle for three at the beginning?” Robert Go of Deloitte & Touche ventured that “we expect consumers and providers will be confronted with economic incentives that will lead them to control health-care costs and spending. Providers will integrate to form delivery systems that will assume

much of the risk of providing services to defined populations. There will be further consolidations within the hospital industry. Quality indicators will be widely used to monitor performance of delivery systems and health plans, and will become the means for providing accountability.” Go’s prognosis for the future is a far more efficient system, as well as coverage for most Americans “at a cost our economy can bear.” For providers of care, a few core concepts appear to be defining the reformed future: competition, cost reduction, quality management, and better technology utilization. For purchasers of care, the issues of primary concern are employer mandates and health alliances.

Both providers and purchasers want autonomy and competition on the free market model. Whether government will give that to them remains an open question for now but not for long. *Written by Clement J. Wu*



BEVERLY TYLER
EXECUTIVE DIRECTOR
GEORGIA HEALTH
DECISIONS

“We recognize that one of the reasons for the crisis in health care is because the industry is out of touch with its consumers.”

The Corporation

gent for the corporate elite. A Harvard-trained tax lawyer, he was retained by McKinsey & Co. in 1971, after President Nixon imposed a pay freeze to battle inflation. The freeze played havoc with McKinsey's compensation practice. After finding a way around the rule, Bachelder decided to stick with his new specialty. By 1982, he had hung out his shingle.

Times haven't always been so cushy for Bachelder. He sparked outrage in 1989, when the recession slowed his

than a decade ago. It also doesn't hurt that Bachelder has a peerless command of tax, compensation, and estate-planning issues, say colleagues.

Those skills have made for pretty juicy client deals. Indeed, Bachelder is known for obtaining relatively risk-free contracts, with high salaries and guaranteed bonuses not tied to performance. His deals also often include rich buy-outs of previous-employer benefits, and large stock-option grants.

Take the package Bachelder designed

pensation expert. "The payoff for failure is almost as much as for succeeding."

Bachelder offers no apologies. No one is forcing companies to fork over tens of millions of dollars in salary, bonus, and options to his clients, he argues. "These executives have extraordinary impact on the performance of our economy. They have a bargaining position which results in the compensation levels that we have today." Moreover, Bachelder says, they deserve the money, since business can be less intellectually stimu-



BACHELDER'S HAPPY CLIENTS

LOU GERSTNER

On top of \$5 million to replace lost RJR perks, Gerstner gets a \$2 million annual salary, a \$1.5 million bonus, guaranteed gains on unexercised RJR options of at least \$9.9 million, and options on IBM stock valued at about \$8.7 million.

GEORGE FISHER

Eastman Kodak CEO's stock-option package is valued at about \$13.1 million. Former Motorola chairman also gets 20,000 shares of restricted stock, valued at about \$1.3 million, but must stay at Kodak until 1997 to collect. Annual salary, bonus, signing premium not yet divulged.

MICHAEL JORDAN

Westinghouse Electric paid new boss \$400,000 signing bonus, plus base annual salary of \$1 million through 2001. Former PepsiCo executive is guaranteed a 1994 bonus of at least \$300,000 and options, currently valued at about \$5 million.

LAWRENCE BOSSIDY

Five-year deal with Allied-Signal signed in 1991 includes \$1.1 million annual salary, plus \$375,000 for lost GE perks and \$1.3 million bonus in 1992. Also received 345,798 restricted Allied units, convertible into cash or stock, and options now worth \$7.9 million.

DATA: COMPANY REPORTS, WYATT CO., THE CRYSTAL REPORT

business. He tried to drum up clients sending unsolicited letters to more than 100 CEOs of large corporations. In the letters, Bachelder suggested the recipients were underpaid and introduced himself as an expert pay negotiator, according to those who saw copies. "This is ambulance-chasing raised to a high art," says Graef Crystal, an executive compensation expert. "Ever since then, I've been very much on guard about Mr. Bachelder." Somewhat sheepishly, Bachelder acknowledges sending the letters but says business ever came of them.

TALTE SIGNS. Nowadays, most top executives are familiar with Bachelder's antics. With his avuncular manner and pleasant negotiating style, he is no table-turning prima donna. "What he does is move all doubt, all clouds, all wonder—about exactly what is at stake, and immediately gains the trust of both sides," says headhunter Gerard R. Roche, who began working with Bachelder more

for Gerstner, who joined IBM last April. On top of a \$2 million salary, IBM paid Gerstner \$5 million to ease the pain of leaving behind a rich package of benefits at RJR Nabisco Inc.—which also happened to be Bachelder-negotiated. Included as well were options on 500,000 shares—worth about \$8.7 million—and a guaranteed bonus of at least \$1.5 million. To render the package even more risk-free, IBM guaranteed that Gerstner would see a net gain of at least \$9.9 million when he exercised his RJR Nabisco options. Then, IBM picked up Bachelder's tab for negotiating the deal for Gerstner, a common practice.

IBM declines to comment on its negotiations with Bachelder, as do other companies that deal with him. But consultants who represent corporations decry Bachelder deals for what they see as the lack of emphasis on performance. "I can always spot the telltale signs of Bachelder [in a package]," fumes a com-

panying and more time-consuming than the work of, say, a low-paid history professor. "Much of what executives do is not personally satisfying," he maintains. And companies evidently don't hold any grudges: He represented 35 corporations last year in compensation matters.

Still, Bachelder says it may be getting harder to stretch the limits of executive pay, now that regulators are taking action. On Jan. 1, 1994, the tax law was changed so that companies can no longer deduct nonperformance-related pay of more than \$1 million a year. On top of that, beginning in 1997, the Financial Accounting Standards Board wants companies to deduct the value of stock options from their earnings. But that doesn't worry Bachelder. He is already hard at work finding new and more creative ways to win richer deals for his clients. Roadblocks mean only more work for the executive elite's favorite lawyer.

By Elizabeth Lesly in New York

Compensation

GETTING OPTIONS? CONSIDER YOUR OPTIONS

Getting your pay in stock or options rather than cash has become a lot more desirable since the top tax bracket rose to 39.6% while the capital-gains rate remained a fixed 28%. Nonqualified stock options, the most common kind, are still taxed as ordi-

or stock options as part of your pay, you might want to step back and reconsider your options.

To help high-paid executives offset the tax hike, companies may start granting more incentive stock options (ISOs). Companies generally don't like ISOs because they

tax partner at Ernst & Young.

To pay the lower tax, you have to hold onto the stock for at least two years if you exercise right away. The cherry on the cupcake is that ISOs are not assessed the newly increased 1.45% Medicare tax. But time the sale of your shares carefully. Prof-

you still avoid paying the Medicare tax.

ISOs may be a better deal for employees than nonqualified stock options, which are taxed as ordinary income. But companies prefer NSOs because they can write them off and they don't have to worry about any restrictions. NSOs can be granted and exercised in whatever amount and whenever the company chooses. Hence some companies may decide to pile on extra NSOs, rather than grant ISOs, to make up for higher taxes, says Matt Ward, a executive compensation consultant at Wyatt

Co. However, there is still a way to exploit the capital-gains gap. Once you exercise NSOs, any further appreciation or depreciation is a capital gain or loss. So if you can, consider exercising your NSOs early.

STICK AROUND. If your company gives you actual stock rather than options, there's another way to take advantage of the capital-gains gap. You may have restricted stock, or stock that is gradually vested over time in order to keep you loyal. Since all you have to do

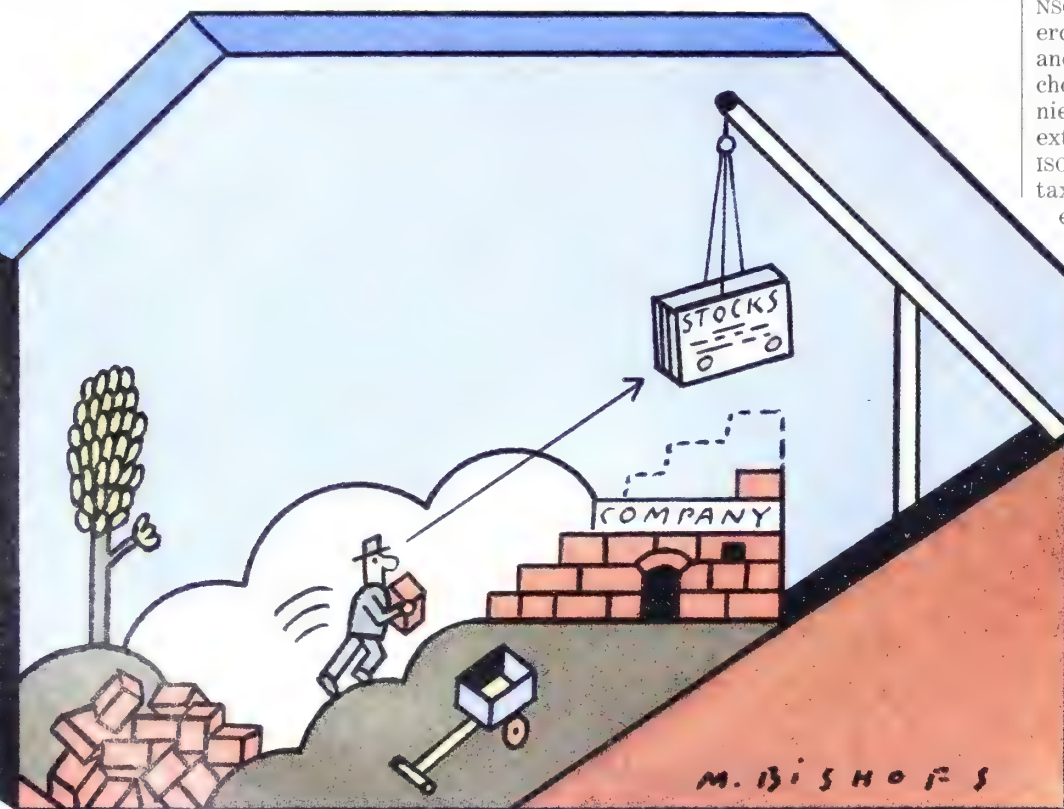
nary income, but incentive stock options, which are taxed as capital gains, may get more popular. And some new trends—such as the growing use of stock awards tied to performance and the ability to transfer options—could create new opportunities to exploit this capital-gains gap of almost 12%. If you're one of those lucky executives who receives stock

can't write them off as a compensation expense and they must meet certain criteria—the employer can only give \$100,000 a year, and ISOs must be granted at fair market value, for example. But to make up for higher taxes, "ISOs are going to become a lot more popular because of a 12% difference between ordinary gains and capital gains," says Martin Nissenbaum, a

its from their appreciation could trigger the alternative minimum tax. If that looks likely, consider selling some of your options early. This creates a "disqualifying disposition," where you lose the capital-gains treatment. But paying ordinary income tax is still better than paying the AMT, says Mike Kesner, head of compensation and benefits at Arthur Andersen. And

get it is stick around for a set period, restricted stock is sometimes called the "live and breathing incentive," says Matt Ward, a compensation consultant at Wyatt & Co.

As a result, restricted stock has come under increasing criticism, and companies are starting to turn to performance shares instead of stock that is set aside for executives contingent upon



their meeting certain company goals—anything from increasing market share to making certain acquisitions. As the goals are met, the stock gradually becomes vested until the executive owns it. This is a better deal for employees than options, says Ward, because when the stock underlying your options drops, the options become worthless. But when you own actual stock, it retains some value even when its price goes down.

RISK. Another plus for performance shares is that there's an easy way to lower the tax bill—but not without a risk. You can elect to pay ordinary income tax on restricted performance shares before they have time to appreciate, thus realizing any future profits as capital gains. To do so, you must apply to the company for an 83(b) election within the first 30 days of being granted the stock. This lets you pay income tax on the difference between the grant price and the market value of the stock immediately, as if it had vested. Where the grant price and market value are the same, by all means take the 83(b) election because you won't owe any taxes, says Arthur Andersen's partner. "This usually only happens in a private-company situation," he says. Public companies more commonly give you a discount because you could buy the stock at market value yourself.

You take a big risk with an 83(b) election, however: If you don't meet the stated goals, or the stock drops, you lose the money you have put out to pay the taxes right off the bat. Hence Kesler advises only executives in startup, turnaround, or potential explosive-growth situations to risk it.

Along the line, benefits specialists expect a tremendous rise in the use of performance-based stock and stock options. Now, most compa-

PERFORMANCE PARTICULARS

► **INCENTIVE STOCK OPTIONS:** These may be better for executives than the nonqualified kind. They are taxed at the capital-gains rate if you sell, as long as you hold them for at least two years. But their appreciation could trigger the alternative minimum tax.

► **NONQUALIFIED STOCK OPTIONS:** Companies prefer these because they get a tax break. NSOs are more flexible than incentive options, but gains are taxed as ordinary income when you exercise them.

► **PERFORMANCE STOCK AND OPTIONS:** Increasingly companies will be using these, which are gradually vested to the employee as corporate goals are met.

► **83(b) ELECTION:** This strategy allows you to pay income taxes on restricted or performance shares right away. Any appreciation will be taxed as capital gains.

► **STOCK OPTION TRANSFERS:** Down the road, you may be able to pass on unexercised options to someone else without paying gift or estate taxes.

DATA: BUSINESS WEEK

nies have shied away from them because they create a charge to earnings, says James McKinney, an executive compensation consultant at Hirschfeld, Stern, Moyers & Ross. But if the Financial Accounting Standards Board has its way, in 1997 stock options, which currently cost companies nothing to grant, will also be charged against earnings in annual reports. "This will increase use of performance-based options because there will no longer be

a penalty attached to them," says McKinney. The FASB has asked companies to footnote the cost of stock options in their financial statements as of Jan. 1.

Shareholder outrage over excessive executive compensation is already leading to a small but growing use of performance shares and has caused the Securities & Exchange Commission to require that companies state the value of stock options in proxy statements. An additional nudge comes from a provision in the new tax law that limits to \$1 million how much executive compensation a company can deduct unless that pay is linked to performance. If the FASB's ruling goes through, performance shares will make more sense for companies to use than options because they will be less dilutive and less expensive, says Wyatt's Ward.

All these pressures to assign an actual value to stock options could conceivably lead to an even more advantageous tax break. That is, you could give stock options to your children without having

any estate or gift taxes.

For this to work, the Internal Revenue Service would have to recognize that unexercised options have a taxable value—something it does not currently do. But with all the regulators demanding the valuation of options, and with a number of existing methods to do so, the IRS may acknowledge them. In that case you could transfer options before they have a chance to appreciate.

Currently, most options can't be transferred to anyone else except through a will or estate. In the rare instance where companies allow executives to give unexercised options to family members, the executive must still pay income taxes on any appreciation when that relative uses the options to buy the stock.

NEW OPPORTUNITY. But if unexercised options were taxable, you could pay taxes on them immediately and pass them and all their potential growth to your children. Not only would your children pay capital gains instead of the enormous cost of estate and income taxes, but you would pay very little tax up front and remove all that appreciation from your estate.

It would work somewhat like an 83(b) election: Say your company gives you options to buy 1,000 shares at \$10 each, but the stock is worth \$20 a share, or \$20,000. You would pay ordinary income tax on \$10,000, pass on the options to your children, and a year later, they could sell and pay the lower capital-gains tax on the other \$10,000—or more if the stock appreciates. You may have to pay a small gift tax if the value of the options exceeds \$20,000.

Such a possibility is still speculation but with the rules for stock options in flux, new opportunities to exploit the capital-gains gap may surface. And if you are diligent you may find that although you now have higher taxes, you also have some more lucrative tax breaks. Pam Black

CAPTURING THE CAPITAL-GAINS EDGE

	Incentive stock option	Nonqualified stock option
EXERCISE PRICE	\$25	\$25
FAIR MARKET VALUE AT SALE*	55	55
GAIN	30	30
TAXED AT 28% CAPITAL-GAINS RATE	-8	—
TAXED AT 42% ORDINARY INCOME RATE**	—	-13
AFTERTAX BENEFIT	22	17

INCENTIVE STOCK OPTION ADVANTAGE \$5 a share or 29%

*Assumes stock appreciates at 12% per year for 6.5 years

**Includes 1.45% Medicare tax

DATA: ARTHUR ANDERSEN & CO.

Travel

HOTELS WITH CORPORATE ROOM SERVICE

With competition for their patronage stiffer than ever, business travelers are finally getting the services they want from the hotel industry. Faxing, copying, and typing are available at most hotels, and guests can expect rooms to have two phone lines, data ports, and functional desks. What's more, express check-in and check-out, voice mail, and curtailed phone charges have even the weariest of business travelers smiling.

Recently, hotels have been bundling additional services into a whole new class just for business travelers. These programs cost a bit more, but are less expensive than paying for each service individu-

ally. "It's almost like buying a first-class ticket on an airline," says Randy Petersen, editor of *Inside Flyer Magazine*. "But it's got nothing to do with being a frequent traveler and everything to do with amenities."

Last fall, Hilton Hotels launched BusinessSavers, a package that includes local phone calls, outgoing faxes, movies, and health-club use for \$10 to \$20 more than the corporate daily rate. The goal, says Michael Ribero, Hilton's senior vice-president of marketing is to "provide essentials you need to work without limiting your ability to relax in that room."

KIMONO, ANYONE? Under Hyatt's Business Plan, which it is rolling out at 30 locations on Jan. 18, guests get an in-room fax machine, free telephone calling-card and 800-number access, continental breakfast, and a phone on the desk and on the

bedside table for \$15 above the regular room rate. "We will create an environment that makes the hotel room an extension of your workplace," says Darryl Hartley-Leonard,



president of Hyatt Hotels.

Inter-Continental Hotels allows guests who book its Global Business Options program to choose among these four amenities: an upgrade to a

suite; double airline miles; \$25 credit toward food, beverages, or hotel services; or personal gift from the region such as French wine or a kimonono. The program, about equivalent to corporate rates, was recently expanded to more than 40 hotels around the world and extended through August.

TALKING HEAD. New technology will continue to lead to breakthroughs in lodging that will benefit the business traveler. Hotels are eagerly awaiting interactive media capabilities, of which movies on demand and videophones are just the start. Ribero estimates that in three years, the hotel office will be able to communicate with

guests through computerized TVs. Marriott's room-of-the-future includes global interactive video-conferencing and ergonomically correct workstations. Amey Stee-

Smart Money

IS THIS TAX FREEBIE MORE TROUBLE THAN IT'S WORTH?

ment plan. You can't use it, for example, if your taxes increased due to changes in the alternative minimum tax, which ensures that wealthy people don't deduct their way out of paying taxes. Also, if you usually get an extension because you own sophisticated investments, you must pay 100% of the taxes you owe by Apr. 15 to be able to defer part of your increase. "That can be tricky," says tax

attorney Peter Berkery, author of *The 1993 Tax Act: How the New Legislation Can Pay Off For You* (\$10.00; Irwin Professional Publishing). If it turns out that you underestimated, you forfeit the chance to defer.

LOST CAUSE. While the particulars should not be too daunting for your tax preparer, they might be for the IRS: In 1981, the last time the IRS let people pay the initial year of tax hikes in installments, it bungled the job, says tax adviser Stuart Becker, president of Becker & Co. in New York. "We found we spent more time and professional fees straightening out clients' problems than the interest they would have earned" on payments that

they held back, he says.

If you have the funds to cover the increase, Becker says, you should just pay it and get it over with—unless you can defer as much as \$50,000. You have to pay the tax anyway, so the most you should do with that money is earn some interest in a bank or money-market account—investments currently yielding less than 3%.

But James Velten, senior tax manager at Coopers & Lybrand, says deferring taxes is a personal decision and the IRS has cleaned up its act since 1981. Some of his clients don't want 1993 taxes hanging over their heads for two more years, while others would never hand money over to the government sooner than they had to. The only other factor to consider, Berkery says, is whether the amount you will save will cover the cost of having your tax preparer fill out and keep track of all the forms. Amey Stee-

THE IRS WANTED TO SOFTEN THE BLOW AFTER 1993's RETROACTIVE HIKE

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Collectibles

SPACE MEMORABILIA: BUYING THE RIGHT STUFF

Mike Mitchell's study is jammed with the flotsam of the space age: behind-the-scenes photos, astronaut autographs, a Gemini 12 decal fished out of a cereal box, NASA mission patches. "Hey, we're all astronaut wannabes," says the Sayette (Me.) collector.

Last December, Sotheby's in New York grossed \$6.8 million in an auction of Soviet space material that included eating utensils, actual space capsules, and moon rocks. Superior Gallery of Beverly Hills held two sales in 1993 and plans more in May and September. Odyssey, an auction house in Corona, Calif., has a space sale scheduled for Feb. 27.

NO RUST. The most enthusiastic demand is for objects that have been in space. Gear used in training missions also brings top dollar. At the Sotheby's sale, a collector paid \$442,000 for the first lunar rocks ever to be sold, and a flown space suit fetched \$156,000. Someone even shelled out \$68,500 for a lunar rover still parked on the moon. Since many of the items, which are being sold by individuals, ministries, and factories, weren't available until recently, reliable appraisals are hard to find. Sotheby's figured that its centerpiece lot, a flown Soyuz TM-10 capsule, would bring \$3 million to \$5 million. It sold for \$1.6 million. But many lots brought prices far higher than estimated.

While many prices in this area are stratospheric, others are more down to earth. Mission patches average \$3 to \$5 but can sell for \$2,000 if flown and documented. The most valuable badges are those sewn on space suit material,

flown on early missions, or worn on worksuits by employees of such space contractors as Martin Marietta or Lockheed.

Some link to a mission increases an artifact's value. But don't think that because it flew in space, a control-panel bolt or a bit of plumbing will be a great investment. "People love eye-catching things," says Leo Malz, a Manhattan dealer in space stamps and autographs. "They want something to put on a desk or a wall, something they can comprehend."



SECOND-HAND
ALAN SHEPARD'S
TRAINING GLOVE

Space Race by Stuart Schneider (\$34.95, Schiffer) covers this area and includes a price guide.

If you're intrigued by space stuff, the Society for the Advancement of Space Activities (207 897-6855) publishes a newsletter with items of interest to collectors. *Frontier* magazine announces shows and auctions. A major event is the quarterly Space Memorabilia Show in Washington, D.C. (301 249-3895). The next one is Feb. 5.

You can start a collection with just about anything. Some collect "instant history" that chronicles the progress of space exploration: magazine covers like the *TV Guide* from the

week of the first lunar landing or videos of broadcasts from orbit. At the Sotheby's auction, someone paid

\$1,035 for an unused urine bag flown aboard Soyuz 2. You can also buy shards of cement from launchpads. In space collecting, it seems, the "final frontier" remains far away.

Heather Miller



ROCKET
MAN
A SUIT
FROM THE
SOVIET
LUNAR
PROGRAM

The popularity of space collectibles has been expanding along with the growing availability of memorabilia. In recent years, many U.S. astronauts have retired, and former Soviet cosmonauts have faced the hard economic realities of the new world order. So artifacts are flooding into the market, fetching prices from \$5 for a stamp to several hundred thousand for a space suit worn in orbit.



PROUD DAY
A MERCURY
PROJECT FIRST
EDITION

Autographs can be an area of particular controversy. Collectors say it's an open secret that most astronauts signed photographs and letters with automatic signature machines. Autopen signatures are not nearly as valuable as real ones. But because it's hard to tell the difference, autopen signatures aren't always listed as such in catalogs. It's best to rely on the judgment of a respected dealer.

QUARTERLY SHOWS. Beyond the established categories lies a territory that can only be called "everything else." That includes such kitsch as NASA beer steins, mock ray guns, Apollo capsule models, even Donald Duck astronaut piggy banks. *Collecting the*

HANDLES LIKE A DREAM
A SLIGHTLY USED SOYUZ
NOSE CONE



Worth Noting

RISK RATINGS. Some mutual-fund owners will soon be able to find out how risky their bond funds are. This month,

Standard & Poor's will unveil ratings that run from aaa (least risk) to ccc, similar to the agency's upper-case grades for bonds. The ratings consider credit, interest-rate, and other risks. To start, only

18 funds S&P currently evaluates for credit risk alone will be included, but others should be signing up.

SMART IDEA. Children with the best ideas for new computer games can earn a

\$25,000 college scholarship. Electronic Arts is sponsoring an essay contest for kids 7 or 8 to 14. For an entry form, write EA at 1450 Fishion Island Blvd., San Mateo, Calif., 94404.

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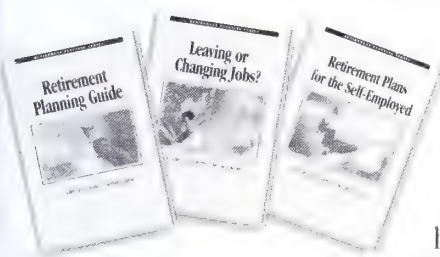
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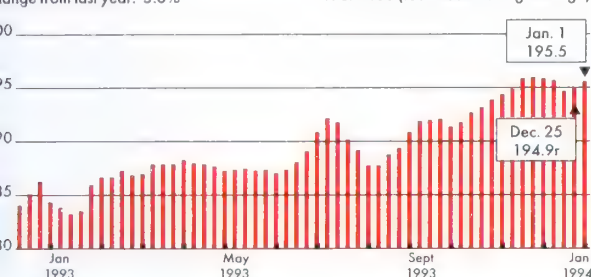
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BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 5.6%

1967=100 (four-week moving average)

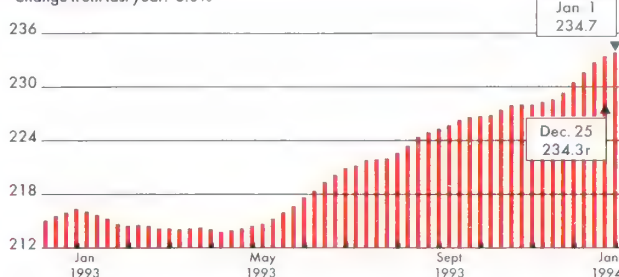


The production index was up during the week ended Jan. 1. Rail-freight traffic and electric power, crude-oil refining, coal, and lumber production all increased and truck plants were closed for the holidays, and steel output was unchanged from the previous week. Data for paper and paperboard output were unavailable. Before calculation of the four-week moving average, the index rose to 198, from 195.5. The index in December fell to 195.5, from November's 195.9.

BW production index copyright 1994 by McGraw-Hill Inc

LEADING

Change from last week: 0.1%
Change from last year: 8.0%



The leading index increased during the week ended Jan. 1. Higher stock prices and better growth rates for real estate loans and materials prices offset slower M2 growth. Business failures declined, but that probably reflected office and court closings for the holidays. Bond yields were little changed. Before calculation of the four-week moving average, the index rose to 234.7, from 233.5. For December, the index stood at 234.5, up from 230.5 in November.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
EL (1/8) thous. of net tons	1,894	1,864#	7.5
TOS (1/8) units	130,083	0#	36.1
CKS (1/8) units	112,527	0#	42.2
CTRIC POWER (1/8) millions of kilowatt-hours	61,394	59,782#	5.8
UDE-OIL REFINING (1/8) thous. of bbl./day	13,334	13,690#	2.5
AL (1/1) thous. of net tons	14,660#	15,796	1.3
ERBOARD (1/1) thous. of tons	NA#	836.3r	NA
ER (1/1) thous. of tons	NA#	792.0r	NA
MBER (1/1) millions of ft.	342.3#	336.3	26.6
L FREIGHT (1/1) billions of ton-miles	16.9#	18.0	3.7

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/12)	112	112	126
GERMAN MARK (1/12)	1.74	1.74	1.63
BRITISH POUND (1/12)	1.50	1.48	1.54
FRANCH FRANC (1/12)	5.91	5.90	5.50
CANADIAN DOLLAR (1/12)	1.32	1.31	1.28
SWISS FRANC (1/12)	1.47	1.48	1.49
MEXICAN PESO (1/12)	3.116	3.109	3.109

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British and expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
LD (1/12) \$/troy oz	386.100	395.250	17.9
EL SCRAP (1/11) #1 heavy, \$/ton	140.00	139.50	40.7
DDSTUFFS (1/11) index, 1967=100	218.6	219.2	9.0
PPER (1/8) c/lb.	85.8	85.7	-21.8
MINUM (1/8) c/lb.	54.3	53.4	-4.9
EAT (1/8) #2 hard, \$/bu.	3.97	4.23	2.8
TON (1/8) strict low middling 1-1/16 in., c/lb.	64.48	62.35	22.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals & Minerals, Kansas City market, Memphis market

w data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/7) S&P 500	467.38	469.43	8.0
CORPORATE BOND YIELD, Aaa (1/7)	7.01%	6.94%	-11.5
INDUSTRIAL MATERIALS PRICES (1/7)	94.8	94.2	-3.3
BUSINESS FAILURES (12/31)	269	302	-31.0
REAL ESTATE LOANS (12/29) billions	\$409.5	\$407.6r	1.3
MONEY SUPPLY, M2 (12/27) billions	\$3,515.4	\$3,524.5	1.6
INITIAL CLAIMS, UNEMPLOYMENT (12/25) thous	293	330	-7.6

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Dec.)	195.5	195.9r	5.7
BUSINESS WEEK LEADING INDEX (Dec.)	234.5	230.5r	8.1
EMPLOYMENT, CIVILIAN (Dec.) millions	120.7	120.3	2.1
UNEMPLOYMENT RATE, CIVILIAN (Dec.)	6.4%	6.5%	-12.3

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/27)	\$1,143.3	\$1,133.2r	11.1
BANKS' BUSINESS LOANS (12/29)	272.2	272.9	-2.5
FREE RESERVES (1/5)	1,159	819r	-0.8
NONFINANCIAL COMMERCIAL PAPER (12/29)	147.7	153.4	5.7

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/11)	2.97%	3.03%	2.98%
PRIME (1/12)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (1/11)	3.18	3.29	3.25
CERTIFICATES OF DEPOSIT 3-MONTH (1/12)	3.13	3.25	3.20
EURODOLLAR 3-MONTH (1/7)	3.23	3.23	3.29

Sources: Federal Reserve, First Boston

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you give blood
you give
another
birthday,
another laugh,
another hug,
another
chance.



American Red Cross

Please give blood.



Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Advanced RISC Machines **92**
Aetna **41**
AIG Investment **82**
AlliedSignal **34, 102**
Allstate Insurance **10**
American Express **8**
American Restaurant Group **41**
Ameritech **92**
Arthur Andersen **108**
AT&T **37, 92**

B

Baltimore Orioles **35**
Bangkok Bank **82**
Banque Indosuez **52**
Barefoot **86**
Baring Securities **82**
Bayerische Hypo **48**
Becker **110**
Bell Atlantic **41, 92**
Bell Communications Research **62**
Blockbuster Entertainment **40, 99**
Buderus **48**

C

Carnival Cruise Lines **86**
Castle Energy **49**
CenterPoint Properties **10**
Centre Re **85**
Chase Manhattan **85**
Chicago Corp. **99**
China Fund **82**
Chrysler **32**
Citibank **52**
Coca-Cola **44**
Comcast **40**
Comdisco **86**
Conning **85**
Conseco **85**
Continental Cos. **86**
Coopers & Lybrand **110**
Coors Brewing **8**
Cox Communications **92**
Cray Research **44**
Cummins Engine **66**

D

Dallas Cowboys **35**
Deutsche Bank **48, 52**
Digital Equipment **92**
Digital Pictures **44**
Dynamit Nobel **48**

E

Eastman Kodak **68, 102**
Eaton Vance Short-Term Treasury Fund **84**
Electronic Arts **112**
Ernst & Young **108**
Exos **66**

F

Fahnestock **86**
Federated Department Stores **37**
Fidelity Investments **82**
Fidelity Overseas Fund **82**
Fiduciary Trust **83**
First Asia Securities **82**
Ford **32, 66**
Forrester Research **92**
France Telecom **10**

G

GE **34, 54, 66**
GEM Capital Management **35**
General Atomics **94**
General Instrument **92**
General Magic **37**
GM **32, 66**
Goldman Sachs **36**
Grand Met **44**
Grand Metropolitan **35**
Grantchester Securities **37**

H

Havatampa **42**
Health Insurance Plan **41**
Hewlett-Packard **92**
Hilton Hotels **110**
Hirschfeld, Stern, Moyers & Ross **108**
Honda **32**
Hong Kong Land **82**
Hongkong & Shanghai Bank **82**
HSBC Holdings **82**
Hyatt Hotels **110**

I

IBM **92, 102**
Insurance Partners **85**
Intel **92**
Inter-Continental Hotels **110**
International Data **92**
IPC **83**

J

James Capel **83**

K

Kamera Werke Noble **94**
Kemper Financial **26**

Keystone **85**

Kidder Peabody **86**

Kmart **59**

KPMG Peat Marwick **52**

L

Laidlaw Equities **41**
LENS **34**
Los Angeles Rams **41**
Luks Industrial **82**

M

Macy (R.H.) **37**
Malaysia Fund **82**
Marriott **110**
MasterCard International **29**
Mazda **32**
McDonald's **54**
McGraw-Hill **30**
McKinsey **102**
MDX **82**
Merrill Lynch **82**
Merrill Lynch Dragon Fund **82, 83**
Merry-Go-Round **44**
Metallgesellschaft **48, 49**
MG **48, 49**
Microelectronics & Computer Technology **62**
MicroProse Software **66**
Microsoft **37, 92**
MMC Ventures **62**
Morgan (J.P.) **85**
Morgan Stanley **26**

N

NatWest Securities **86**
nCube **92**
Nintendo **44**
Nissan **32**
Nomura Securities **82**
Not From Concentrate **42**
NTN Communications **41**

O

Oracle Systems **92**

P

Paramount Communications **40**
Parzival **48**
Permanent Portfolio Family of Funds **84**
Philips **92**
Procter & Gamble **44**
Prudential Insurance **85**

Q

Qualcomm **10**
QVC Network **40, 41**

R

Rite-Aid **44**
RJR Nabisco **49, 102**
Rochester Telephone **92**
Rockwell International **54**

S

Salomon Brothers **26**
Sara Lee **36**
Scientific-Atlanta **92**
Sega **37, 44**
S.G. Warburg **40**
Shanghai Daijiang **83**
Siam Commercial Bank **82**
Silicon Graphics **92**
Singapore Fund **82**
Spezialtechnik Dresden **92**
Standard & Poor's **86, 110**
Stentor **92**
Sun Hung Kai Properties **66**
Syntex **44**

T

Taiwan Fund **82**
Tamarac Storage Devices **62**
Tektronix **66**
Telekom Malaysia **82**
Thai Farmers Bank **82**
Thai Fund **82**
Thornton Asset Management **82**
Time Warner **41**
TLC Beatrice **35**
Towers Perrin **102**
Toyota **32**
Toys 'R' Us **44**
Twenty-First Securities **86**

U

Unilever **35**
U.S. Healthcare **41**
U S West **92**

V

Van Eck Asia Dynasty Fund **82**
Viacom **40**
VIMRx Pharmaceuticals

W

Walt Disney **52, 86**
Washington Redskins **35**
Westinghouse Electric **3102**
Wharf Holdings **82**
Whittle Communications
WMX Technologies **99**
Wyatt **108**

Z

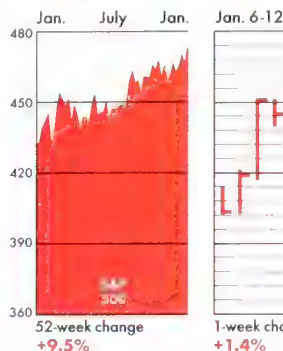
Zurich Re **85**

Investment Figures of the Week

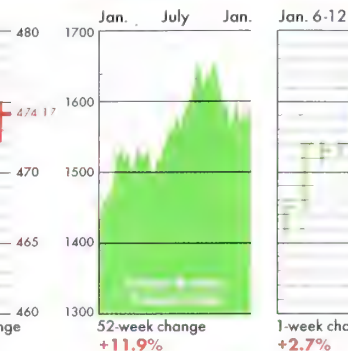
COMMENTARY

A icy wind blew through the red-stock markets of Hong Kong, Singapore, Malaysia, and Thailand—the stars of 1993. The beneficiary, for now, seems to be the struggling Japanese market, a snappy 5.7% for the week. All Street prospered as well. Funds rallied because of good news on inflation, driving long-term rates back below 6.2%. Tightening hopes for corporate profits sent the blue chips climbing. Jan. 10, the Dow industrials and the S&P 500 marked new highs.

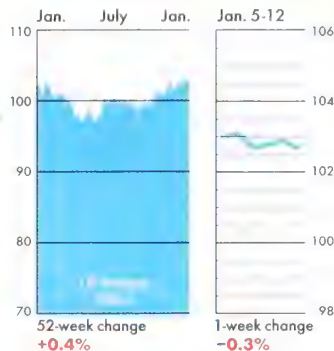
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3848.6	1.3	17.9
SIZE COMPANIES (S&P MidCap Index)	179.2	0.5	12.5
ALL COMPANIES (Russell 2000)	260.2	0.9	17.5
COMPANIES (Russell 3000)	273.4	1.3	10.0

FOREIGN STOCKS	Latest	% change (local currency) Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	3372.0	-0.2	22.8
DOW JONES (NIKKEI INDEX)	18,793.9	5.7	13.8
DOW JONES (TSE COMPOSITE)	4454.7	1.2	35.1

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.02%	3.14%	3.06%
30-YEAR TREASURY BOND YIELD	6.18%	6.41%	7.44%
S&P 500 DIVIDEND YIELD	2.61%	2.48%	2.93%
S&P 500 PRICE/EARNINGS RATIO	23.2	22.9	19.9

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	460.5	459.6	Positive
Stocks above 26-week moving average	54.8%	51.6%	Negative
Speculative sentiment: Put/call ratio	0.38	0.42	Neutral
Insider sentiment: Vickers sell/buy ratio	1.68	1.78	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
HOSPITAL MANAGEMENT	11.7	59.0
COMMUNICATIONS EQUIPMENT	11.5	5.5
INSTRUMENTATION	11.2	18.2
MACHINE TOOLS	10.3	11.7
HEALTH-CARE SERVICES	10.0	-23.9

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
BROKERAGE FIRMS	-6.2	36.7
GENERAL MERCHANDISE CHAINS	-5.9	-3.0
TOYS	-5.3	11.9
REGIONAL TELEPHONE COMPANIES	-4.3	8.7
RETAIL STORES	-4.2	-1.6

Strongest stock in group

	% change 4-week	% change 52-week	Price
COMMUNITY PSYCHIATRIC CENTERS	29.7	72.4	163 1/2
ANDREW	16.9	71.0	39 3/4
TEKTRONIX	18.9	20.9	26
CINCINNATI MILACRON	13.5	30.3	23 1/2
AMGEN	12.9	-27.7	50 1/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
MERRILL LYNCH	-10.5	44.8	42 5/8
KMART	-11.1	-13.0	20
HASBRO	-7.2	13.2	35 3/8
BELL ATLANTIC	-8.4	12.3	55 7/8
BLOCKBUSTER ENTERTAINMENT	-13.0	52.0	28 1/2

MUTUAL FUNDS

LEADERS

	4-week total return	%
MERRILL LYNCH LATIN AMERICA A	14.4	
JOVETT EMERGING MARKETS	14.0	
GUDDER LATIN AMERICA	13.9	

	52-week total return	%
KINGSTON STRATEGIC INVESTMENTS	284.0	
UNITED SERVICES GOLD	137.1	
N ECK INTERNATIONAL INVESTORS	124.9	

LAGGARDS

	4-week total return	%
SMITH BARNEY SHEARSON SPECIAL EQUITIES B	-4.6	
SMITH BARNEY SHEARSON TELECOMM. INCOME	-4.2	
PARAGON VALUE EQUITY INCOME	-3.9	

	52-week total return	%
FORUM INVESTORS STOCK	-12.6	
PILGRIM CORPORATE UTILITIES	-10.1	
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-7.3	

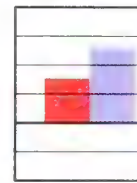
S&P 500

Average fund

4-week total return



52-week total return



RELATIVE PORTFOLIOS

Investment amounts
represent the present
value of \$10,000
invested one year ago
in each portfolio

Percentages indicate
annual total returns



Foreign stocks

\$14,377

+1.08%



Treasury bonds

\$12,288

+1.88%



Gold

\$11,703

-2.19%



U.S. stocks

\$11,254

+1.56%



Money market fund

\$10,211

+0.04%

Data on this page are as of market close Wednesday, Jan. 12, 1994, unless otherwise indicated. Mutual fund groups include S&P 500 companies only; performance and share prices are as of market close.

Jan. 11. Mutual fund returns are as of Jan. 7. Relative portfolios are valued as of Jan. 11. A more detailed explanation of this page is available on request. r = revised

CLINTON'S SECURITY BLANKET

In an era of corporate downsizings, drive-by shootings, and medical uncertainties, insecurity runs rampant in America, particularly within the middle class. Lifetime employment is gone, the streets are unsafe, and going to a doctor is a big deal.

Welcome to Year Two of the Clinton Presidency and the politics of insecurity. When the President delivers his State of the Union address to Congress on Jan. 25, Clinton will signal his Administration's shift from the dirty work of deficit-cutting to the more politically appealing task of knitting a new security blanket for the nation (page 68). If the Administration keeps government bureaucracy and spending to a minimum, it could boost the economy by helping people cope with the rigors of global competition. If it doesn't, it could easily smother economic growth, à la Europe, and kill the President's chances in 1996 for a second term. Everything depends on whether Clinton is serious about delivering government services more efficiently.

The centerpiece of the security program, of course, is health. As it now stands, the President and Hillary Rodham Clinton are prescribing an old-fashioned Big Government fix, with heavy mandates on employers, price controls, and 50 new regional "alliances."

Passing this program would cause an economic, if not a medical, nightmare. But if the Clintons are saved from themselves by Congress—as is expected—and a simpler, more gradual, market-oriented plan is passed, the Administration

just might extend health benefits and lower costs without destroying a medical system that works for three-quarters of the population.

The same can't be said for the government's education and training programs, which aren't working at all. Employment security via lifelong education and job training is a major initiative of Labor Secretary Robert B. Reich. The trouble is most training programs aren't working well and are really income-maintenance plans in disguise. Reich has a great opportunity to overcome the bureaucratic politics that have forestalled a sweeping reorganization of training programs. If Reich can clean up the mess, he'll be a hero.

Clinton already is being given high marks in business circles for his efforts to open foreign markets and back high-tech activities. Under the banner of economic security, the Administration would now boost spending modestly for the Advanced Technology Program, the manufacturing-extension service, and the Commerce Dept. To help improve the trade deficit, the White House should also cleave to numerical trade targets with Japan and work to keep the yen close to 110.

Throw in \$1.6 billion for 100,000 more cops on the beat, and the hodge-podge of programs of the new security agenda is complete. As a political vehicle, it plays to popular anxieties. As a policy agenda, it's a test of whether the Democrats have finally learned to deliver government services efficiently. Here's hoping...

SETTING NEW TELECOM RULES OF THE ROAD

So far, so good. With the Clinton Administration, and particularly Vice-President Gore, cheerleading from the sidelines, U. S. telecommunications, cable-TV, computer, and media companies are racing to lay the groundwork for the Information Superhighway. Private companies and investors will spend hundreds of billions before they're finished. When they're done, consumers will have access to a rich variety of interactive programming—from movies on demand and home shopping to "virtual" museum tours. And the U. S. could wind up with the most advanced information infrastructure in the world.

But now is the time for government to lay down a new set of rules, as the Vice-President said in a speech on Jan. 11 in Los Angeles. The new telecommunications rules of the road have to reflect the realities of the Information Age (page 88)—an age in which digital technology blurs the lines between the telephone, computer, video, information, and entertainment industries. The goal is to write legislation that encourages investment in the electronic superhighway but steers clear of promoting heavy-handed regulation or industrial monopoly.

What should Washington do?

■ Set a specific timetable for introducing competition between phone and cable systems. Cable companies worry that the

cash-rich phone companies will overwhelm them, and local phone companies worry that cable companies will cherry-pick their best customers. Both want long delays, and Gore is wrong to agree with them. There should be free competition by 1994.

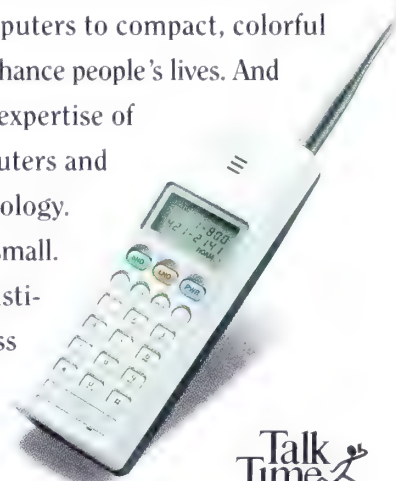
■ Guarantee access to all. Maintaining an open system, not managing scarcity, should be the principle that guides Washington's regulatory stance. The Communications Act of 1934 gave government the right to license broadcasters on the basis of scarce airspace. This concept evaporates in the face of unlimited bandwidth. What is important now is the ability of all information providers to gain access to the Information Superhighway at reasonable cost. The same is true for individual customers. How can rural folks or the poor get access to the electronic network? What is the information equivalent of the dial tone that is guaranteed today?

If the history of the phone and cable industries is any guide, there will be a tendency toward natural monopoly on the part of the distributors along the Information Superhighway. Hastening the advent of true competition and writing new rules to keep the game open and clean is the best way the Administration and Congress can encourage this amazing revolution in our lives.

“Driving the ten-year-old second car didn't worry me—until my job moved down the road fifty miles. For his own peace of mind, my husband gave me an NEC portable phone. I didn't realize what a good idea it was until the fan belt broke in the middle of nowhere.”



Portable phones are no longer luxuries. They are carried by people in every walk of life. Business people, housewives, students and retirees. Carpenters and utility workers. Anyone who's on the go and needs to stay in touch. And the brand more and more people count on is NEC. Because every product that NEC makes, from UltraLite™ laptop computers to compact, colorful pagers, is designed to enhance people's lives. And they are backed by the expertise of a world leader in computers and communications technology. In businesses large and small. In public and private institutions. In homes across the country. NEC is a part of people's lives.



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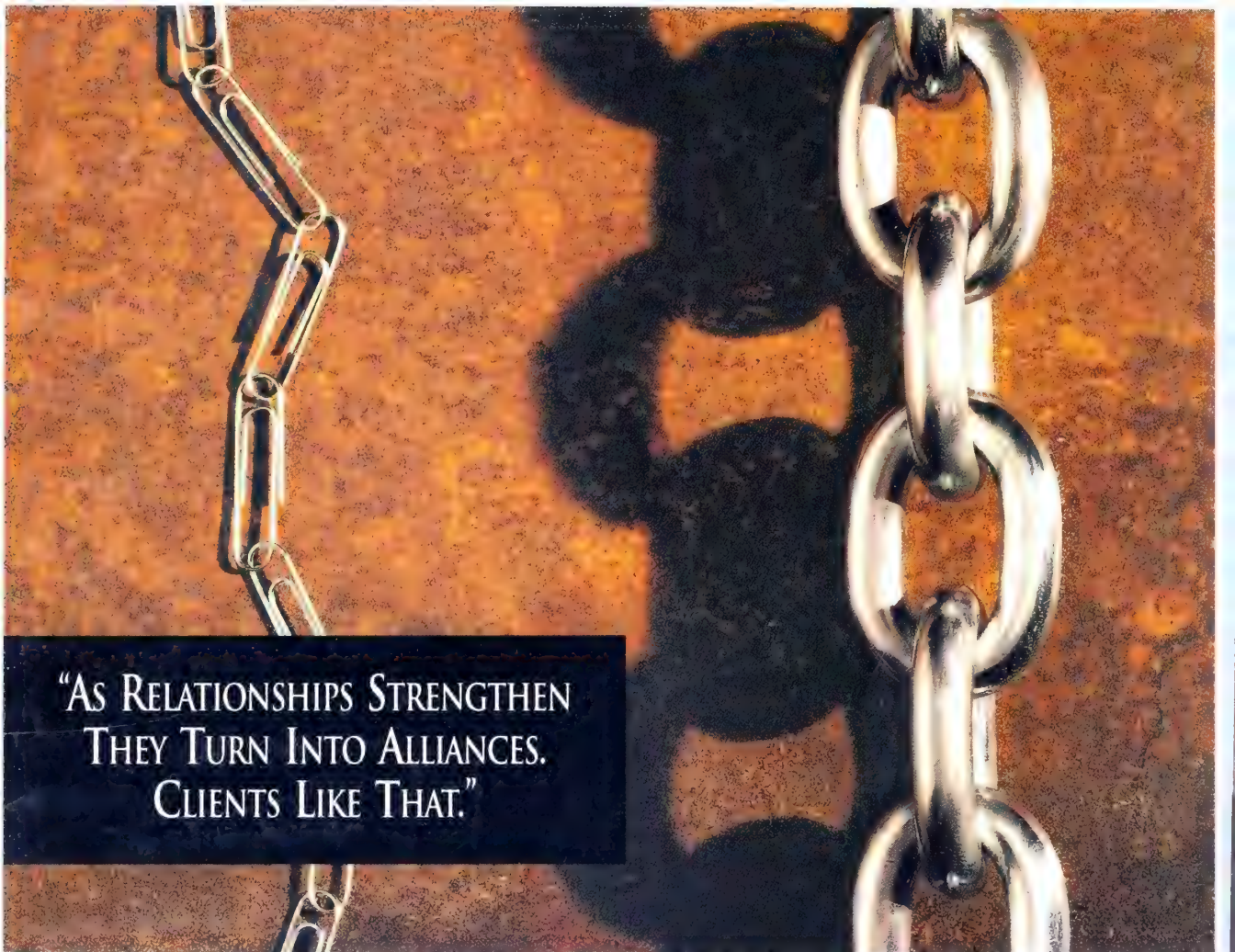


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WEEK

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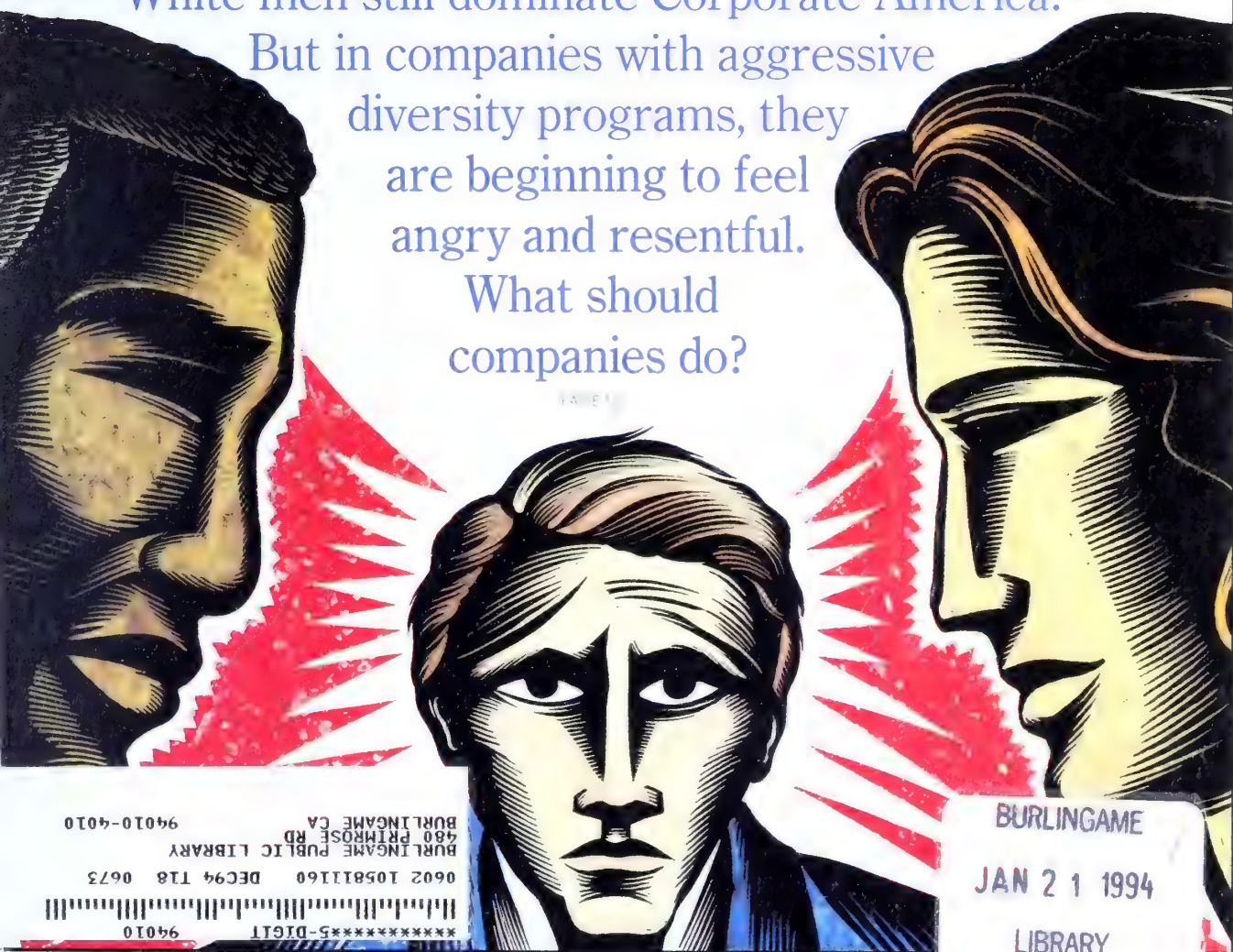
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WHITE, MALE & WORRIED

White men still dominate Corporate America.

But in companies with aggressive
diversity programs, they
are beginning to feel
angry and resentful.

What should
companies do?



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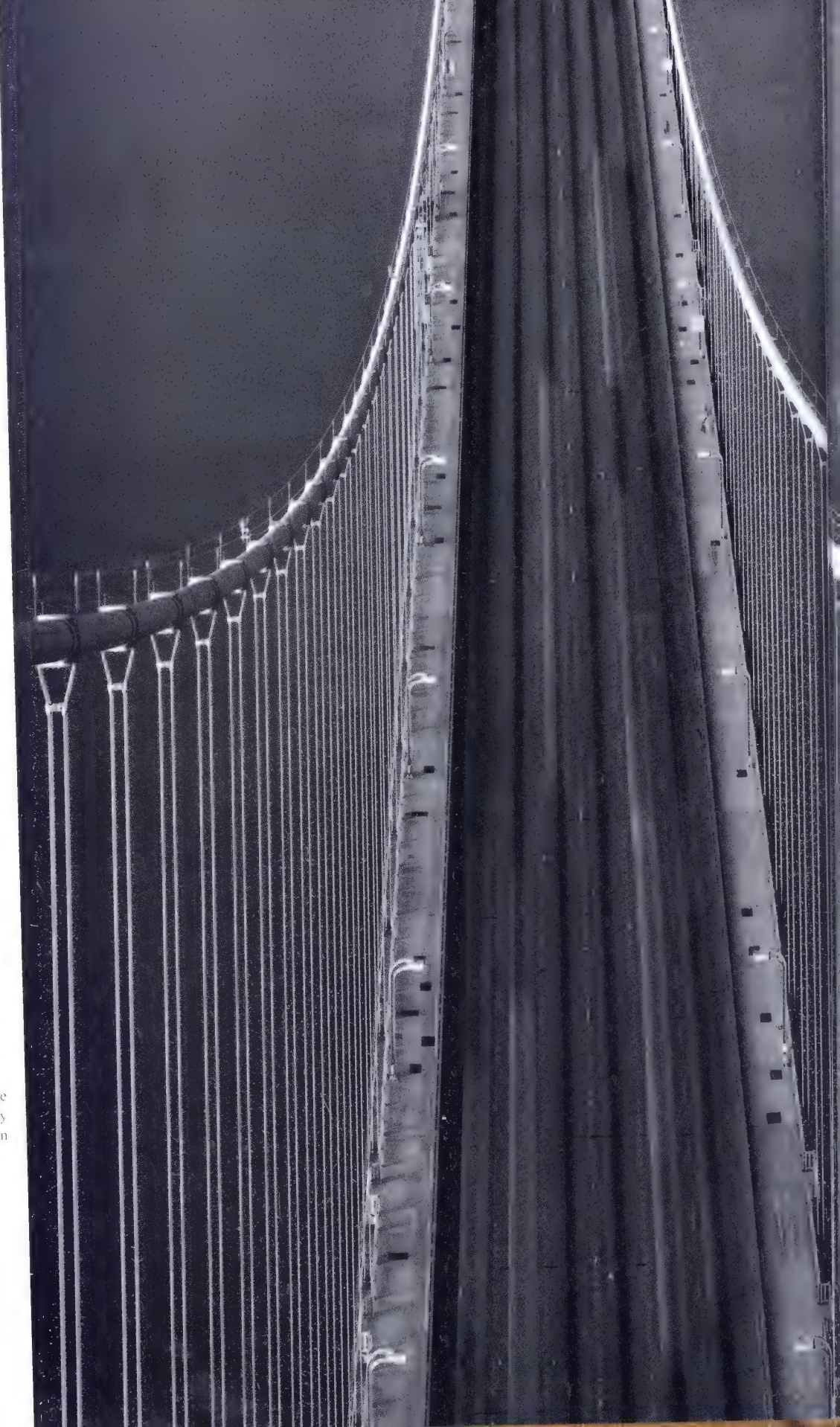
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The Golden Gate Bridge
photographed by
John Sexton



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combined. Yours. Ours. Working in unison.
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BRONZE. AND BLUE.

helped the Norwegians optimize a billion-dollar investment by simplifying inventory control, stat gathering, ticketing, lodging; we even helped create the first competitive American-made bobsled in 38 years. All in all, this winter in Lillehammer, nothing will cover the Games more thoroughly than IBM. With the possible exception of...the white stuff.





DIVERSITY'S CASUALTIES: WHITE MALES ARE FEELING RESENTFUL AND AFRAID THAT THE RULES ARE CHANGING TOO FAST

Cover Story

50 WHITE, MALE, AND WORRIED

No matter where they work, white men face a sobering reality: With a more diverse population entering the work force, they are slowly becoming a minority. Suddenly, they're worrying about their future opportunities. Managing diversity in the workplace is imperative for employers. But can they hire and promote more women and minorities without fueling a backlash?

54 DIVERSITY WITHOUT ADVERSITY

Some companies have found a more successful strategy

Top of the News

26 GOLDEN HEARTBREAK

The Los Angeles earthquake compounds California's myriad economic troubles

28 GOOD TIMES, BIG LAYOFFS

Corporate America isn't letting growth stand in the way of cuts

29 COMMENTARY

Why Clinton's tax hike won't derail the recovery

30 TRADE-GAP BLUES

As the U.S. trade deficit with Japan widens, both sides are searching for ways to avoid friction at the summit

31 REMOTE CONTROL AT ZENITH

The embattled TV maker's outside directors are helping CEO Jerry Pearlman run the show

32 TO PRUNE A LILLY

The company is spinning off six units to focus on its core pharmaceutical operations

34 WARD'S AND PEACE?

Some prodigal executives return to the troubled retailer—and that may signal the end of the tumult

36 AN OLYMPIAN BID

CBS snares the 1998 Winter Games—but is the price too dear?

38 IN BUSINESS THIS WEEK

Wal-Mart, American Airlines, computer stocks, Al Taubman, Bobby Ray Inman, biotech

International Business

42 CHINA

Can it manage the switch to a market system—and federalized structures for banking, tax, and industry—all under the Communist Party and with public ownership?

45 A TALK WITH ZHU RONGJI

China's architect of reform goes over the blueprints with BUSINESS WEEK

49 INTERNATIONAL OUTLOOK

With Viktor Chernomyrdin's ascent, Russian reform goes from shock therapy to shock absorbers

Economic Analysis

18 ECONOMIC VIEWPOINT

Becker: One way to root out corruption is to boot out big government

22 ECONOMIC TRENDS

Materials prices flash an inflation warning, health-care cost hikes, welfare and pregnancy, a glut of trade-ins could hurt new-car sales



26 AND NOW, A BROKEN BACK:
CALIFORNIA HAS BEEN NO STRANGER
TO NATURAL AND ECONOMIC CHAOS.
ALAS, JUST WHEN THINGS WERE
LOOKING UP, COMES DEVASTATION

78 NO MORE MR. TOUGH GUY?
DISNEY STUDIOS' LEGENDARY
HARDBALL PLAYER JEFFREY
KATZENBERG IS LIGHTENING UP
THESE DAYS—WELL, A LITTLE

42 BRAVE NEW TECHNOCRAT:
ZHU RONGJI, BOSS OF CHINA'S
ECONOMIC AFFAIRS, HAS DRAFTED
A REFORM PACKAGE TO FORGE A
POWERFUL, MODERN NATION—FAST

23 BUSINESS OUTLOOK

Even though the economy ended 1993 in a sprint, it won't be winded as it enters 1994

Government

41 WASHINGTON OUTLOOK

The Pentagon and the trustbusters sharpen their weapons and prepare to defend their respective turfs

66 GREASING THE EXPORT SKIDS

Clinton's focus on emerging markets is making it easier for U.S. companies to expand abroad

Finance

56 FATHOMING WHITEWATER

The allegations involve influence peddling, improper diversion of funds, illegal campaign contributions, and conflicts of interest. Yet "Whitewatergate" could end with a whimper, not a bang

59 AND THE BCCI BEAT GOES ON

The Justice Dept.'s new special prosecutor gets Abu Dhabi to give up files and a key player

60 COMMENTARY

Mutual funds: The rules on insider trading, please

62 INSIDE WALL STREET

Cable TV: StarSight's star bright
Keep an eye on this odd mix
A good hand for United Gaming

89 INVESTMENT FIGURES OF THE WEEK

The Corporation

64 THE NEW SOUL OF JOHN DEERE

A far-reaching overhaul at the farm-equipment maker is redefining blue-collar roles and raising profits

Information Processing

68 INTEL PUSHES THE PC

The chipmaker is spending millions to turn computers into personal-communications centers

69 WORKSTATIONS GO TO WAR

Will lower prices and new applications stem the PC onslaught?



80 NEXT-GENERATION VIDEO GAMES:
THE CONSUMER ELECTRONICS SHOW
OFFERED AN ARRAY OF EVER-BETTER
COLOR, SOUND, AND LIVE-ACTION
PLAY—BUT THEY DON'T COME CHEAP

Science & Technology

71 CORPORATE TRIATHLETES

MBAs who also have engineering and computer skills are red hot

75 DEVELOPMENTS TO WATCH

Marketing

76 THE FIRE THIS TIME

Marlboro is rebounding, with new promotions and products planned

People

78 MORE LIKE MICKEY

The atmosphere at Disney Studios gets somewhat warmer

Personal Business

80 ELECTRONICS: Visionary video games

FINANCES: Swatting pesky IRA fees

SMART MONEY: Stock buybacks

TRAVEL: Frequent-flier alert

Features

6 UP FRONT

14 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

16 BOOKS

Crichton: *Disclosure*

87 BUSINESS WEEK INDEX

88 INDEX TO COMPANIES

90 EDITORIALS

What Russia can learn from China
On reassuring white males

Up Front

TALK SHOW

You begin to wonder how much Angelenos are expected to take.

—California Governor Pete Wilson, surveying Los Angeles after the Jan. 17 earthquake

EDITED BY LARRY LIGHT AND JULIE TILSNER

CAPITAL OFFENSES

WHITEWATER SHAFTING

Look who's talking. On Capitol Hill, the outcry for a special prosecutor to probe the tangled affairs of the Clintons, Whitewater, and Madison Guaranty Savings & Loan was intense.

Among Democratic senators calling for action were Virginia's Charles Robb and Michigan's Donald Riegle, who both complained loudly about past probes of their own questionable conduct. Keating Five alum Riegle knows a lot about S&L wheeling and dealing. In 1991, the Senate Ethics Committee rebuked him for helping influence-seeking Charles



DOLE, ROBB: Pals in glass houses shouldn't throw press conferences

Keating, the convicted thrift kingpin, with his regulatory problems while taking Keating campaign gifts. And Robb is familiar with federal grand jury investigations: He was cleared last year of conspiracy and obstruction of justice charges stemming from taped eavesdropping on car-phone conversations involving his political archrival, former Virginia Governor Douglas Wilder. But his reputation has been sullied: An indictment of an associate accused Robb of knowing about the tapes' content, an accusation the senator denied.

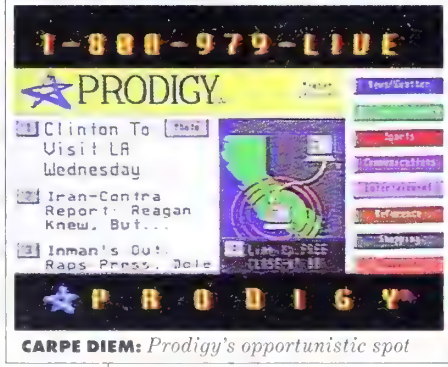
Then there are the Republicans. Just two years ago, with the Iran-contra imbroglio at issue, Senate Minority

Leader Bob Dole (R-Kan.) compared the Office of Independent Counsel to the Spanish Inquisition. Dole used parliamentary tactics to kill the office. Yet with a Democrat in the White House, Dole pushed hard for a special prosecutor, albeit one who still reports to the Justice Dept. *Richard S. Dunham*

MAD AVE

MAKE HAY WHILE THE EARTH SHAKES

Quicker than you can move a PC cursor, Prodigy Services used the Los Angeles earthquake to drum up business. In 30- and 45-second TV spots, aired the night after the catastrophe, the on-line service trumpeted the fact that its members were able to "check on a friend or loved one" by posting messages on Prodigy's bulletin board—when calling Los Angeles by phone was next to impossible. The ads tempted viewers to join "our community" by flashing an 800 phone number. Says a spokesperson at rival CompuServe: "I personally thought [the commercial] was tacky."



The live spots are part of an \$11.5 million campaign aimed at reversing the membership losses at five-year-old Prodigy to its more nimble competitors, CompuServe and America Online. Prodigy defends the Los Angeles commercials as a demonstration of its ability to provide timely information. *Paul M. Eng*

KIBITZERS

COOL IT! IT'S THE CALPERS COPS

Only they are supposed to know who they are—21 poorly performing companies put on secret early-warning by the \$80 billion California Public Employees' Retirement System to shape up by next summer or else. Or else what?

If their stock prices don't improve, the companies will likely become public targets of the pension fund in 1995. CalPERS would hit the laggard with shareholder resolutions, vote against their board directors at proxy time, or damage them using some other unwelcome action to make its point.

CalPERS is mum about the '95 names, but BUSINESS WEEK has learned that they include National Intergrupp, USF&G, Jostens, Software Publishing, QMS, Borden, ASK Group, and IMC Fertilizer.

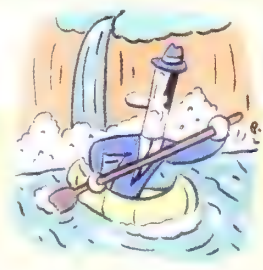
The nation's leading activist shareholder revealed this new early-warning m.o. in its corporate governance program on Jan. 18, when it went public with the 10 companies it is targeting this year. CalPERS has been meeting with executives and outside directors at Navistar, USX, Eastman Kodak, Westinghouse, Zenith, and five other companies on its '94 list. Changes are under way at many, and at least two—Boise Cascade and U.S. Shoe—face CalPERS proxy resolutions this spring. *Judith H. Dobrzynski*



REALITY CHECK

SOME ECONOMISTS SAY the white-collar recession is a myth. As in past recessions, they say, blue-collar workers fared far worse than professionals, whose jobless rate is just 2.8%. Plus, job prospects for well-educated

workers look good as the economy picks up. Skeptical economists say white-collar joblessness is hyped by national media, based mainly in the Northeast and California, where downsizing in defense, computers, and finance has hit hardest.



IN REALITY, the economic speed-up in recent months has still left many white-collar workers floundering—a problem the statistics obscure. Since August, manufacturers have added 54,000 blue-collar jobs while cutting 35,000 nonproduction ones, primarily white-collar positions. Over that stretch,

the unemployment rate has gone down for others but hasn't improved at all for managers and professionals. Meanwhile, such companies as AT&T, The New York Times, and General Motors are making more white-collar cuts. The message for managers and professionals: No one is safe yet. *Michael J. Mandel*

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SPECIAL HANDLING

AND THEY NEVER GRIPE ABOUT THE FOOD



USAIR: Coffin up business

In the scramble for passengers, USAir has started a frequent-dier program, focusing on the corpse market. The Arlington (Va.)-based airline is offering funeral directors one free domestic round-trip ticket if they ship 30 bodies

via USAir. Since the program, called TLC, began in October, USAir has transported 500 bodies, boosting their human-remains business by 30% over the comparable period a year ago. Part of the traffic surge is probably due to the fact that, for a variety of reasons, a lot of deaths away from home occur around the year-end holidays. Says airline spokeswoman Andrea Butler: "We are in high season."

Other airlines will carry bodies, although USAir's push into this niche is unique. Carriers offer cargo rates for bodies, shipped in their coffins in the hold, as well as discounts up to 50% for accompanying relatives. Under USAir's program (phone: 800 TLC-3333), to take Uncle Beezer from Pittsburgh to Chicago for his final rest, it's \$264 for you and \$230 for him.

USAir is promoting the program through trade newsletters and magazines. In the ads, it says it's "reaching a higher level of service," and shows a plane climbing upward, presumably toward heaven. *Keith L. Alexander*

PRODUCT PEEK

WHO YOU GONNA CALL? GOOP BUSTERS

Sandia National Laboratories, once a thriving center of nuclear weapons design, needs to justify its existence now that the cold war is gone. So its scientists have dreamed up a nonlethal goop weapon to stop rioters and other miscreants. Sandia's high-tech goop is shot out of a fat-barreled gun that's slung over the shoulder à la *Ghostbusters*. Once slimed, an evil-doer has trouble moving: The stuff turns into a brown taffy on contact.

But will it sell? Police departments are skeptical. Bash a rioter on the head with a nightstick and he



SLIMED: How to keep a bad man down

falls to the ground. Goop him, and he might keep coming, however slowly. "What good is it," asks New York City Police Dept. spokesman Detective Joseph McConville, "if it doesn't work right away?"

Albuquerque-based Sandia will test the goop gun on volunteers later this year. The funder of the project, the National Institute of Justice, a research arm of the Justice Dept., insists that police will welcome alternatives to more harmful, conventional tools for subduing a suspect: nightsticks, sprays, stun guns, and the like. *Peter Coy*

DRAWN AND QUARTERED



IPO TURKEY OF THE MONTH

NOT-SO-BLESSED EVENT

A Pea in the Pod, a high-fashion maternity-wear chain, hasn't exactly delivered since its September initial public offering of stock. Four months after the IPO—at \$12 per share—the stock has lost almost half its value (chart). The woes of the Irving (Tex.)-based retailer illustrate the vagaries of the apparel industry and the influence of a strong rival, Mothers Work.

Pea boasts good clothes

and a solid balance sheet, but a slowdown in the maternity market has hurt. Since spring, fashion has let women wear looser-fitting garments, which they can buy anywhere. This zapped Mothers Work stock just as Pea went public, dragging down Pea, too.

But since then, the stock of Mothers Work (104 stores) has rebounded, while Pea (55) still lags. Why? Pea reported a 43% profit drop in its most recent quarter, compared with a 28% gain for Mothers Work, which has the advantage of being able to make its own clothes, keeping inventory fresh. □

A PEA IN THE POD'S PLUNGE

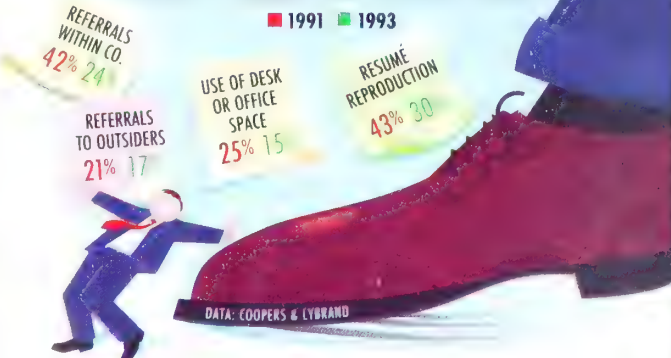


THE BIG PICTURE

BYE-BYE, BOOT-OUT BENEFITS

The corporate downsizing bloodfest continues, but now, more companies are downsizing severance benefits, too, even for mundane services like resumé reproduction. On the plus side, more axed execs are keeping company-paid life and disability insurance.

PERCENT OF COMPANIES WHO OFFER LAID-OFF EXECs:



FOOTNOTES

Total junk bonds issued in 1986: **\$32 billion**. In 1990: **\$14 billion**. In 1993: **\$54 billion**

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2

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—Jean Sherman Chatzky, *Smart Money*, June 1993

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**EXECUTIVE
PROGRAMS**

ONE PARENT'S EDUCATION WISH LIST

In "School-finance reform: Don't give up on vouchers" (Economic Viewpoint, Dec. 27), Gary Becker perpetuates the misconception that our education system can be reformed through economic manipulation.

At the core of our frustration as a country is the sad reality that more money is not the solution to our educational dilemma. Education reform must reflect and follow tremendous societal change. Pouring more money into the pot or dividing it in a new and novel way ultimately will be futile unless we examine how our education system currently expends its resources, and how our other social programs support and enrich our youth. The voucher system is a one-dimensional solution to a multifaceted problem.

As a parent, my education wish list would include assuring that every child in this country go to school each day fed, clothed, rested, and ready to learn; that all students would be enriched and nurtured by challenging and dynamic curricula; that we, as parents, would demand explanations for the innumerable frivolous and questionable expenditures our school districts make that sap our resources and detract from the success of our overall system, and that we all demand relief from the multiplicity of bargaining units that have a financial stranglehold on our education system in the country.

Mary Engelmann Murphy
Cherry Hill, N. J.

LET AMEX' BOARD PAY FOR THE PERKS

In "Little sinkhole on the prairie" (Up Front, Dec. 27), I was absolutely shocked to read for how much Harvey Golub stuck the poor unrepresented stockholder of American Express Co. [because the company bought his house and resold it at a loss]. This deal doesn't pass any smell test I have ever heard of. Perhaps it is time for the Internal Revenue Service to take a long,

CORRECTIONS & CLARIFICATIONS

The "Investment Outlook Scoreboard" (Where to invest in 1994, Dec. 27) should have shown a dividend rate of \$1.72 for MCN Corp., with a yield of 4.95%. Also, the number of institutional shareholders and the percentage owned by institutional shareholders for Marriott International should have been "NA" (not available).

In "To the rescue" (The Best New Products, Jan. 10), the computer program featuring Goofy should have been identified as Berkeley Systems Inc.'s Disney Screensaver.

hard look at what companies classify as expenses, and maybe make this great board of directors take personal responsibility for their actions.

John Rosenthal
Chevy Chase, Md.

AN A- FOR EFFORT AT CURBING SEXUAL STEREOTYPES

The article "Affluent, dual-income families get creamed by the feds" (Economic Trends, Dec. 27) was refreshingly not stereotypical—discussing dual-income households and the "lower-wage spouse" without stereotyping the woman as the lower-wage spouse. Until the last paragraph, that is. Thanks for the effort. Maybe next time it will be complete.

Susan M. Violette
Raleigh, N.C.

WHAT SCHOOLS CAN LEARN FROM CORPORATIONS

Your article on "Theodore Sizer's mandate to mend mindless schools" (Top of the News, Jan. 10) has strong similarities to your previous article on "The horizontal corporation." Sizer's team approach appears as another manifestation of customer-driven, self-managed teams organized around the learning process in a flattened hierarchy. The students, colleges, and industry are the customers. The complaints of teachers and administrators have the same ring

as those in industry fighting change. The way of the 1990s seems transferable to many paths of today's culture.

Peter K. Worsley
Santa Barbara, Calif.

THE POWERSHOT STAPLER'S WEAK SPOT

You anointed the Black & Decker PowerShot stapler as a best new product ("Power Staples," The Best of 1993, Jan. 10). The PowerShot has a serious design deficiency: It will not accept a full clip of standard staples. At least $\frac{1}{4}$ inch of the clip must be removed in order to place it in the stapler. Apparently, the designers of the PowerShot failed to take standard staples into account. Oh yes—Black & Decker does have its own staples, which no one stocks.

J. F. Koenen
Mt. Prospect, Ill.

Editor's note: B&D says the design of the stapler's plunger is the cause.

JAPANESE CONSUMERS DESERVE A BREAK

In your article "GATT: It's yesterday's agreement" (Top of the News, Dec. 27), you only briefly mentioned rice imports by Japan. But it's a very, very big issue. Japan's Prime Minister, Morihiro Hosokawa, at last succeeded in introducing market forces thanks to a strong *gaiatsu*, or foreign pressure.

In Japan, consumers have forever been buying products and services at strictly regulated prices. The stronger yen never means stronger buying power for consumers in the highly protected Japanese market. For example, almost all the profits oil importers get from the favorable current exchange rate do not translate into lower gas prices. It's unfair, isn't it?

Yukoh Yamamoto
Tokyo

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In December, 1992, I decided to monitor some stocks on your menu of investment opportunities table accompanying the article "Here's to making '94 the year of picking wisely" (The Investment Outlook Scoreboard, Where to Invest in 1993, Dec. 27, 1992). Twelve stocks were listed: Amerada Hess, Goodrich (B. F.), Tele-Communications, Texas Industries, Varity, DWG (now Triarc), Sci Systems, Hudson Foods, Lyndell Petrochemical, Penn Traffic, Ford Motor and Comdisco.

I picked those stocks because the art

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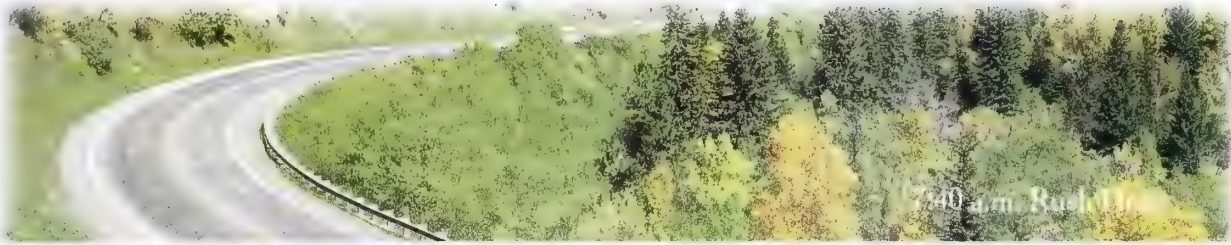
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14 BUSINESS WEEK/JANUARY 31, 1994



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le stated: "A rather straightforward strategy for stock-picking is to target those companies likely to rack up earnings gains." I purchased as close to \$2,000 per company as possible, and ended up with a total outlay of \$24,385.76 for the 12 issues, not counting brokerage fees. On Dec. 30, 1993, this investment was worth \$30,228.88, giving me a profit of \$5,843.12—a gain of 23.96%.

One of your slogans is "BUSINESS WEEK—Profit by it." I commend you for your diligence, a rare trait in these days.

Nicholas R. Romano
Middletown, N.Y.

Editor's note: The earnings projections for the companies in the annual feature are the mathematical mean compiled by I/B/E/S Inc. from analysts who follow the companies.

DIAGNOSING RUSSIA'S AILMENTS

Debate about the appropriate economic policy for Russia will continue in 1994 ("The reforms have lost," *International Business*, Dec. 27). As an economist and businessman, I spent much of 1992 and 1993 in Russia and would like to make several points.

First, high and variable inflation is certainly a problem, but it has not been as instrumental in keeping foreign investors away as political instability and lack of progress in commercial legislation and administration.

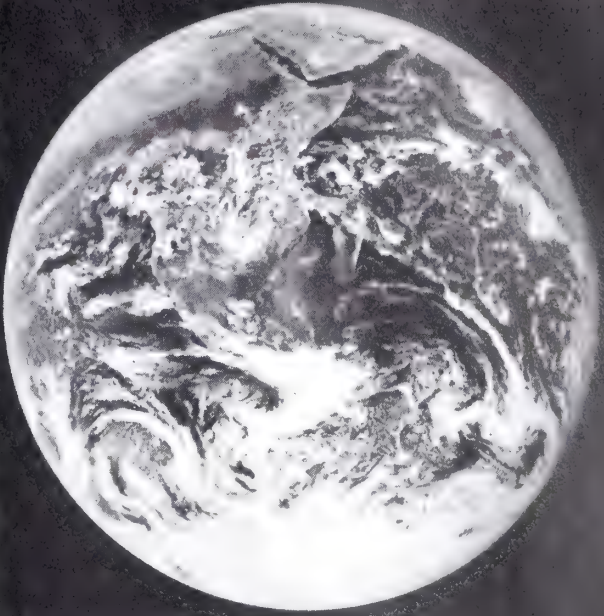
Second, there is a need for great caution in tightening macroeconomic policy in rapid pursuit of very low inflation. For one thing, tight policies deny producers the financial resources, the market demand, and the time needed to undertake structural change.

Third, the experience of other countries offers little support to those who seek to "shock" Russia into low inflation. Despite its high level of "marketization," the New Zealand economy stagnated in the second half of the 1980s because a tight macroeconomic policy and the aftereffects of excessive debt leverage offset the positive effects of a generally excellent structural reform program.

Poland began its reform program with much less market-oriented economy than New Zealand and consequently found it much more difficult. Russia, however, is even further behind, so any potential successes in Poland will not be easily repeated.

Jeff Schubert
Sydney

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DISCLOSURE

By Michael Crichton
Knopf • 400pp • \$24

A SCREED IN THRILLER'S CLOTHING

Tom Sanders, the hero of Michael Crichton's *Disclosure*, is running late. He has 10 minutes to shave, dress, and leave the house to make the ferry to his high-tech job in Seattle. And this is no ordinary workday: A key meeting is scheduled, and Tom expects his big promotion to be announced. But his wife, a lawyer, just can't seem to deal with the kids, so Tom unhappily gives them breakfast. He misses the ferry and gets to work embarrassingly late.

That night, after a fight during which Tom barks that his wife is "about as oppressed as Leona Helmsley," he stands forlornly before the fridge, eyeing the meager pickings. "He was startled by his own reflection in the glass of the oven. 'Another privileged member of the patriarchy, lording it over the manor.' Christ, he thought, where did women come up with this crap?"

O.K., Tom is upset. And with good reason. Before leaving work that evening he has been sexually harassed, to put it mildly, by the woman who got the promotion he thought was his—an old lover, no less. The next morning, the woman, whose advances Tom spurned, will accuse *him* of harassing *her*. This incident is the fulcrum of a lone-man-against-the-world plot involving a hush-hush merger, corporate skulduggery, the cyberspace frontier, and good old-fashioned sleuthing.

Crichton's usual strengths are in evidence. The high-tech high jinks are impressive, and if the book's best scene—people spying on one another as they skulk through a dreamlike virtual-reality data base—seems a bit implausible, well, so what? The chapters are bite-size, the plot cooks, the suspense works. If my son hadn't awakened and interrupted me at 3 a.m., I probably would have read till dawn.

But the book's strengths are poisoned by its weakness: Crichton's flat, unimpassioned and cartoonish style.

least of them. Like his previous book, *Rising Sun*, a jeremiad against the devious doings of Japanese business, *Disclosure* is a screed in thriller's clothing. This time, the target is the evil wrought by the women's movement and other nefarious forces of political correctness.

The most vivid character—our hero being rather pallid—is Meredith Johnson, a siren plucked from the fever-dreams of anxious men. This is a female with "male" attributes: She is aggressive, sexually voracious, and above all, power-hungry. She is also so

Crichton seems to believe is turning men into wimps. The head of Tom's company is pathetically blind to Meredith's schemes. The spineless corporate lawyer is obsessed with making the company look good by hiring women and minorities regardless of their abilities. Throughout the book, Crichton has characters spout lectures attacking affirmative action and the general notion that women have anything to complain about. He even throws in a scaring few pages on false accusations of child abuse. His bid to add balance by means of sympathetic female characters—Tom's lawyer is an icily efficient straight-shooter—does little to dilute the underlying alarms about feminism run amok.

Crichton has said he was astonished by the storm over *Rising Sun*, which was widely criticized as racist, but this time around he is clearly courting controversy. (And with 900,000 copies of *Disclosure* in print before the publication

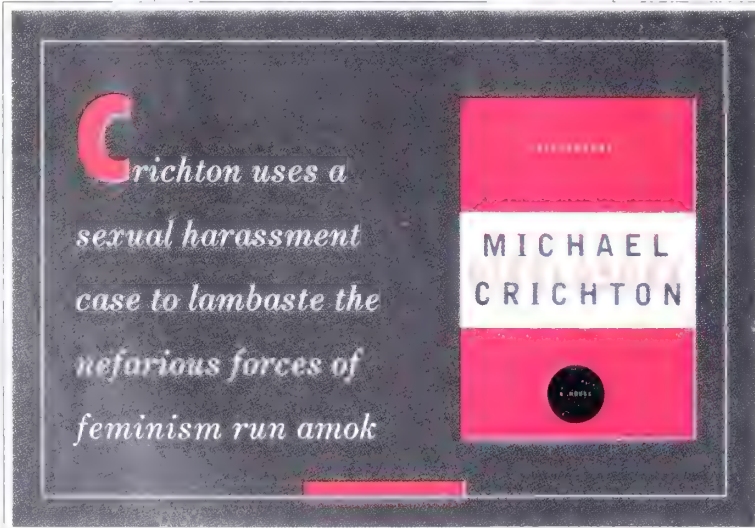
date, who can argue with his strategy?) In an afterword, he claims the book is "based on a true story," which means nothing, since one has no way of knowing how much he has fictionalized. He also grants that only 5% of sexual-harassment cases involve women harassing men, but argues that as more women attain the corridors of power, that percentage will rise. "Power," he intones, quoting Katharine Graham, "is neither male nor female."

No doubt that is true. No doubt, also, that feminism, like every other so-

cial movement, produces crazed, vindictive, and opportunistic adherents of the sort Crichton takes such joy in skewering. No doubt, even, that a novelist taking on the subject of sexual harassment has no obligation to describe a "typical" incident. But it is nevertheless revealing that he chooses this one at a time when women are still egregiously underrepresented at top corporate levels—and when sexual harassment plays a part in blocking their advance. In his afterword Crichton urges readers to approach the book as a Rorschach test for "what it tells us about ourselves." What this Rorschach suggests is an author frightened and horrified by the shifting balance of power between the sexes.

BY HARRY MAUREN

Deputy Copy Chief Maurer's Sex: An Oral History has just been published by Viking.



flagrantly unscrupulous that her ascent to a high post is another of the book's improbabilities. Her greatest weapon is, natch, her body, the sundry perfections of which Crichton never tires of citing.

How we have one great male hero, Tom Sanders, and one great female villain, Meredith Johnson, and their interactions prove even more abusive than male bores. The fun, of course, is rooting for monstrous Meredith to get her comeuppance. When Tom finally decides he's going to fight, and fight dirty, you feel the age-old pain of watching the guy who's being pushed around stand up and declare that he's not gonna take it anymore. Even his wife is impressed: "She stared at him, as if she were seeing a stranger."

But the book's most startling move is to make Tom Sanders, the hero, the

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TO ROOT OUT CORRUPTION, BOOT OUT BIG GOVERNMENT

BY GARY S. BECKER



The best way permanently to reduce undesirable business influence over the political process: Scrap all the regulations that serve as little more than tollgates for graft

In several countries I visited in the past year, major scandals centered on corruption charges against prominent politicians and businessmen. Everywhere, I was told that their business leaders were uniquely venal and their political system especially vulnerable to corruption. But corruption is common whenever big government infiltrates all facets of economic life, never mind the political and business systems.

In modern economies, profits often are determined more by government subsidies, taxes, and regulations than by traditional management or entrepreneurial skills. Huge profits ride on whether companies win government contracts, get higher tariffs and quotas, receive subsidies, have competition suppressed, or manage to have costly regulations eased.

Companies respond to the importance of government's role by striving to influence political decisions. It often is effective just to lobby politicians, and human nature guarantees that sometimes businesses bribe officials and politicians in return for government favors and profits.

"Rent-seeking" is the way economists describe all efforts by special interests to benefit by influencing political decisions. The expression applies to any group that depends on government handouts and other favors. Paradoxically, rent-seeking can serve a social purpose. It may prevent policies that would cause considerable social harm or promote policies that make an economy more efficient. For example, if all the detailed regulations regarding construction in the statutes and codes of most U.S. municipalities were followed to the letter, construction would virtually cease because of the costs of compliance. And communist economies would have performed much worse than they did—and their record was bad enough—had bribes not greased the wheels and overcome the most outrageous government controls over the economy.

BUMPY ROAD. But bribery and other illegal rent-seeking usually do considerable damage. They always divert the time and resources used by high-powered lobbyists and fixers away from the production of useful goods and services. They also often promote policies that distort the operation of an economy.

Organized criminals extract monopoly prices for the goods and services they control through bribes and intimidation. Roads are badly built or diverted to less useful routes in order to reward builders and landowners who influence officials making the decisions. Loans from government banks and agencies go to companies with political clout rather than

where they can be invested most profitably. Evidence of these and many other acts of political corruption have been highlighted by the scandals in Brazil, Italy, Japan, South Korea, and other countries.

In several countries, politicians and parties caught with their fingers in the till were ousted this past year. The reaction has been so strong in Italy that the largest party of the political center, the Christian Democrats, may be permanently damaged. Recent elections in Rome and other Italian cities have been dominated by ex-Communists and fascists, a pathetic choice between two political extremes.

The party that ruled Japan continuously since the 1950s has splintered into several competing groups. The Brazilian Congress impeached the nation's first democratically elected president in 30 years, Fernando Collor de Mello, because of revulsion at the widespread corruption in his government.

SEVER THE LINK. Voting out crooked politicians and punishing people in business who illegally influence policies discourages corruption. Reform movements that come to power often make good for a while on their promises to clean up the process and eliminate corruption. During such crackdowns, businesses and other rent-seekers must rely on campaign contributions and other legal ways to influence outcomes.

But corruption always reemerges wherever governments have a major impact on economic conditions. The momentum behind reform movements peters out as politicians, officials, and companies become tempted once again to risk exposure and disgrace by giving and receiving bribes and engaging in other corrupt acts.

There is only one permanent way to reduce undesirable business influence over the political process: Weaken the link between business and politics. It is essential to simplify, to standardize, and especially to eliminate many of the regulations affecting economic activity. Surely this explains why new governments recently elected in Japan and Korea have pledged to deregulate, and why a new Italian political center is forming around demands for privatization and increased competition.

Evidence of widespread corruption can be a blessing in disguise if it is the catalyst for reducing government control over large segments of the economy. But if all it does is to help elect politicians who promise to be more honest and diligent than their predecessors, experience shows that before long, political and business corruption will rear its ugly head again.

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

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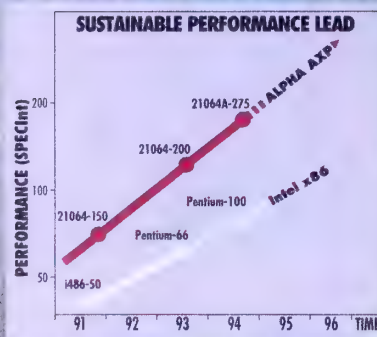
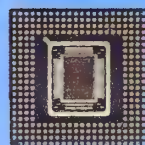
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BY GENE KORETZ

MATERIALS PRICES ARE FLASHING AN INFLATION WARNING...

Just as many observers are proclaiming an end to inflation, others are warning that inflationary pressures are starting to build. "If you look closely," says economist Lawrence A. Kudlow of Bear, Stearns & Co., "you can spot evidence that inflation is on the uptrend."

Such evidence isn't apparent in the overall inflation indexes. Economist Bruce Steinberg of Merrill Lynch & Co. notes that the producer price index rose only 0.2% last year, while the consumer price index, up 2.7%, chalked up its best two-year performance since the mid-1960s. Even excluding food and energy prices, both indexes last year registered

COMMODITY PRICES ARE TAKING OFF



their smallest increases in two decades.

Nonenergy commodity prices, on the other hand, have been springing to life in recent months. The Commodity Research Bureau's spot price index of industrial raw materials, which excludes oil, has jumped 6.4% since late September (chart). The core producer price index for crude materials jumped 2.4% in December and ended 1993 some 11.4% above its year-earlier level.

Some of the sharpest gains have been posted by commodities that are mainly reliant on U.S. demand, such as scrap steel, lumber, and cement. But copper, lead, and zinc have also strengthened.

To Kudlow, such developments—along with the runup in gold prices and a Federal Reserve policy that he believes has been unduly stimulative—suggest that inflationary pressures are stronger than generally appreciated. Even Merrill's

Steinberg concedes that commodity prices are trending higher.

The key question, though, is whether this pickup will affect final goods prices much. Continuing small wage gains and strong productivity growth, believes Steinberg, should enable manufacturers to absorb higher materials costs—particularly since economic growth is likely to slow to a more sustainable pace.

Economist Paul D. Mastroddi of Morgan Guaranty Trust Co. argues, however, that the economy is closer to an inflationary threshold than many observers realize. With capacity utilization at 83.5% and the jobless rate outside California close to 6%, stronger-than-anticipated growth could accelerate price pressures and prompt significant tightening by the Federal Reserve.

Right now, most economists doubt that will happen. The real inflation threat, they say, will come in 1995, when the entire industrial world will be expanding. The problem is that commodity prices are highly volatile. If they continue to surge upward, they are likely to reinforce inflation fears and prompt inflationary behavior by business and monetary restraint by the Fed.

...AND HEALTH-CARE PRICES MAY BE PLAYING POSSUM

Many observers are hailing the dramatic slowdown in medical-care price hikes as a sign that market pressures are finally taming the health-care inflation monster. Since peaking at 9.7% in early 1991, medical-care inflation has fallen to a 4.4% annual rate in the past six months—its slowest pace in 20 years.

Economist Rosanne M. Cahn of CS First Boston is not impressed, however. She points out that medical-care inflation also slowed sharply in the early 1970s, when the Nixon Administration sought to tame inflation by imposing price controls. During that episode, health-care inflation decelerated faster and further than overall inflation. But once controls were dismantled, medical prices exploded again.

To Cahn, the moral of the story is that health-care providers are highly responsive to government pressure and heightened public scrutiny, but they are also prone to revert to their old ways once the pressure lets up. So, without explicit cost controls, or better still, the development of true competition, she warns that health-care inflation is likely to take off again after the public's attention is diverted.

DO BIGGER WELFARE CHECKS MEAN MORE KIDS? NOT REALLY

The conventional wisdom is that the size of welfare benefits encourages young women to have children out of wedlock. But a recent Urban Institute study by economist Gregory Acs disputes this view. Analyzing the behavior of a nationwide sample of women from age 14 to 16 until they reached 23, he found that education, family, race, and income have a much larger impact on their child-bearing decisions than the generosity of welfare checks.

Acs calculates, for example, that a 19-year-old white high school graduate in a central city who comes from a two-parent family of average means and whose mother was also a high school graduate has a 4.1% chance of having an out-of-wedlock birth. A similar woman from a single-parent family, on the other hand, has a 6.6% chance. By contrast, raising the state's welfare benefit by \$100 (about 30% during the period studied) increases the probability in either case by only around 0.1% to 0.2%.

Black women have much higher rates of out-of-wedlock births, but the pattern is basically the same. That is, raising or reducing welfare benefits, by itself, has relatively little effect on their child-bearing behavior—even for women raised in poverty. Moreover, the Urban Institute study finds that single mothers on welfare are no more likely to have another child by age 23 than are other young mothers.

The results, says Acs, suggest that "reducing benefits for mothers on welfare who choose to have additional children is unlikely to have a significant effect on their behavior."

A GLUT OF TRADE-INS COULD HURT NEW-CAR SALES

Is the used-car market signaling a coming slowdown in new-car sales? Economist Aubrey Zaffuto of AZ Advisory notes that used-car prices rose just 0.1% in December, after exploding at around an 11% annual rate in the prior nine months. While rising trade-in values fuel new-car sales, such sales increase the available supply of used cars and eventually cause trade-in values to weaken. If that is now starting to happen, says Zaffuto, new-car demand will soften.

THE YEAREND SPRINT HASN'T WINDED THE ECONOMY

Just how strong is this economy, anyway? Judging by the December data, the growth rate at the end of 1993 may have exceeded even the robust expectations of most economists. And while the severe weather may cool off some of the January numbers, there is every indication that the economy carried much of its yearend momentum into the first quarter of 1994.

Several monthly indicators that relate closely to real gross domestic product posted stunning gains last quarter. After adjusting for inflation, retail sales, construction spending, and capital-goods shipments each grew at double-digit annual rates. And manufacturing output posted the largest increase in 10 years.

All this suggests that fourth-quarter GDP growth, to be released on Jan. 28, could be well above the current median expectation of 4.8%. One obvious plus will be healthy fourth-quarter profits. Also, the monthly data indicate steady growth through the quarter, so several GDP components will start the first quarter well above their fourth-quarter levels.

The Federal Reserve's Jan. 19 assessment of economic activity by region, covering the period from December to early January, echoed the economy's more upbeat tone. The Fed reported that consumer spending was "strong" and housing activity "grew robustly," while also noting improvement in manufacturing and credit demands.

But there's a downside. The economy's zip is raising questions about inflation, interest rates, and Fed policy. Given rising commodity prices, increasing demands on industrial capacity, and tighter labor markets, will faster growth fuel wage and price pressures? Will the bond market sour, pushing long-term interest rates even higher? And will the Fed be quick to hike short-term rates?

A FINAL PUSH AT STORES AND FACTORIES The December data on retail sales and industrial production leave little doubt about the economy's vitality (chart). Retail buying rose a surprisingly strong 0.8%, following revisions showing a 0.3% gain in November and 2% surge in October, which turned out to be the largest monthly advance in four years. As in previous months, durable goods led the December increase.

For the quarter, real retail volume appears to have

risen at an annual rate of slightly more than 10%, compared with the third quarter. That's about the same gain as the one racked up in the fourth quarter of 1992, which was the largest in more than six years.

The early-bird signs for January consumer spending look good. The *Johnson Redbook Report's* survey of department stores shows sales in the first two weeks of the month up strongly from December. And the University of Michigan's preliminary read of consumer sentiment points to another increase in household optimism.

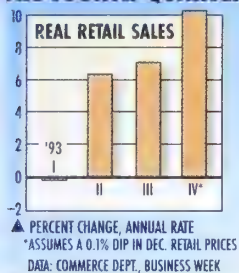
Strong consumer buying explains last quarter's pickup in industrial production. Output at manufacturers, utilities, and mines rose 0.7% in December. Production in manufacturing alone was also up 0.7%, led by gains in car and truck output and production of business equipment. For the quarter, factory output rose at a hefty 8.7% annual rate, with motor vehicles and parts accounting for about half of that gain.

The combination of rising demand and low inventories sets the stage for further output increases this quarter. Inventories held by manufacturers, wholesalers, and retailers rose 0.6% in November, a plus for fourth-quarter GDP, but business sales jumped 1.1%. As a result, the ratio of stocks to sales fell to 1.44 in the month—the lowest in more than 12 years. This ratio suggests that some inventory replenishment is necessary, and that will support production gains this quarter.

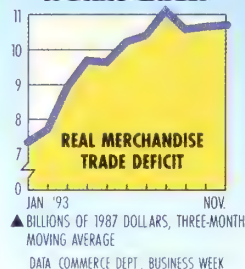
Moreover, foreign trade appears to have exerted little, if any, drag on growth during the last quarter. The merchandise trade deficit shrank slightly in November to \$10.2 billion, from \$10.9 billion in October. Exports fell 0.1%, to \$40.1 billion, while imports dropped a steeper 1.5%, to \$50.2 billion, reflecting a sharp decline in oil prices. Adjusted for prices, the trade deficit has flattened out since the third quarter (chart).

JUST HOW FAST IS TOO FAST? The key question: Is the economy growing too fast to keep inflation down? To begin with, despite the economy's big fourth quarter and its forward momentum, growth in the first quarter seems likely to slow down closer to 3%, the expected pace for all of 1993. One reason: Consumer spending on durable goods, which helped fuel

CONSUMERS POWERED THE FOURTH QUARTER



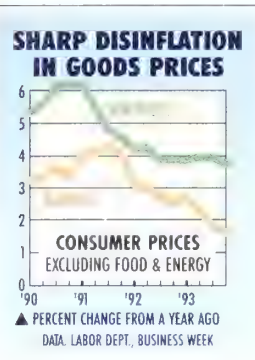
TRADE: LESS OF A DRAG LATELY



Business Outlook

the fourth quarter, is unlikely to match last quarter's pace.

That's particularly true because housing gains are probably close to topping out, given that mortgage rates have stopped falling, that mortgage applications for home purchase are declining, and that the spending boost from mortgage refinancings is waning. Also, first-quarter car production, while scheduled to rise, is slated to do so at a much slower pace than last quarter's.



Despite stepped-up growth last quarter, the December consumer price index showed further signs of inflation's ongoing decline. The CPI rose 0.2% last month, while the core index, which excludes energy and food, increased 0.3%. For the year, inflation fell to 2.7%, down from 2.9% in 1992. More important, the core rate, a better reading of inflation's underlying trend, ended the year at 3.2%—the lowest since 1972.

Most of last year's slowdown occurred in goods prices (chart). Core goods prices rose only 1.6% in 1993, while core service prices were up 3.7%. In particular, apparel prices rose only 0.9% last year, including a 0.7% drop in December. Because of that deep discounting, many retailers may not share in last quarter's profit bonanza.

OPERATING RATES DO NOT SEEM TROUBLING

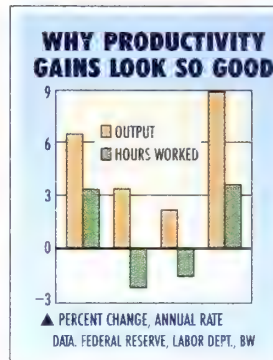
Looking forward, there is little danger that goods prices are about to speed up. True, industrial capacity utilization rose to 83.5% in December, the highest rate in 4½ years. That's close to the rate that has been associated with past production bottlenecks and price pressures.

However, that rate might be overstated. The Federal Reserve's numbers show industry's capital stock rising only 1.6% during the past year. That just doesn't square

with last year's surge in business investment in new equipment, estimated at a gain of 15% to 20%. The Fed has said that it intends to improve its estimate of capital stocks, set to show up in the January report due on Feb. 15, so operating rates may be revised down.

With no clear signs of capacity shortages, the recent rise in commodity prices is not worrisome. It simply reflects the pickup in industrial activity, and it is unlikely to generate faster inflation at the manufacturing level. That's especially true because raw materials account for less than one-third of production costs, while employment costs contribute more than two-thirds.

On that front, labor costs are hardly inflationary right now. The 8.7% advance in factory output last quarter was accompanied by a 3.6% rise in hours worked, suggesting a 5% surge in productivity (chart). Manufacturing productivity for all of 1993 appears to have risen near that pace. With wages growing 2.9%, that means unit labor costs dropped about 2% last year.



Will all this convince the bond market that it has nothing to fear from inflation? Of course not. Right now, the bond market is using strong economic growth as a proxy for inflationary pressures, and as long as the economic data look strong, the more likely it is that long-term interest rates will rise.

But where does all this leave the Fed? While the central bank may not be concerned about inflation in 1994, its focus is on 1995 and beyond. Given the economy's pep, it looks increasingly likely that the Fed will take out a little inflation insurance sooner rather than later. If fourth-quarter GDP growth is surprisingly strong, a hike in the federal funds rate might be only weeks—not months—away.

THE WEEK AHEAD

TREASURY BUDGET

Monday, Jan. 24

The federal government likely had a \$7.5 billion deficit in December, say economists surveyed by MMS International, a unit of McGraw-Hill Inc. Although quarterly corporate and individual taxes were paid in December, the government mailed out January's Social Security checks early because Jan. 1 fell on a Saturday. That higher spending pulled the budget into deficit.

EMPLOYMENT COSTS

Tuesday, Jan. 25, 8:30 a.m.

Wage and benefit costs for civilian employees likely rose by 0.8% in the fourth

quarter, the same small gain as in the third quarter of 1993. Over the course of the year, employment costs likely increased 3.5%, not much different than the 3.4% advance posted in 1992 that was the slowest annual gain in labor costs in five years.

DURABLE GOODS ORDERS

Thursday, Jan. 27, 8:30 a.m.

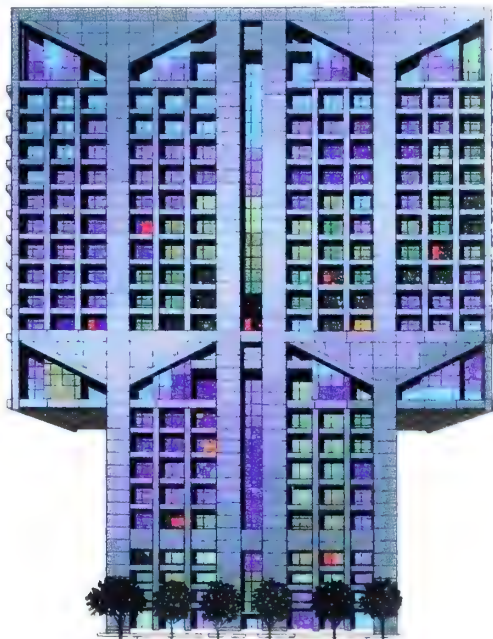
New orders taken by durable-goods makers probably rose by 1.5% in December. If so, that would be the fourth consecutive rise in bookings, including a strong 1.9% gain in November. Auto demand probably led the December gain. Still, unfilled orders, down 0.6% in November, likely slipped again.

GROSS DOMESTIC PRODUCT

Friday, Jan. 28, 8:30 a.m.

The MMS median forecast is that the fourth-quarter economy grew at a strong 4.8% annual rate. The most optimistic economist projects a 5.5% surge in real GDP. Consumer spending, homebuilding, and business investment on equipment generated much of the growth, but rebuilding from the summer's Midwest floods and the fires in California lifted nonresidential construction as well. Inflation, as measured by the GDP price deflator, probably rose at a 2.3% annual rate last quarter. That's up from the 1.6% rise in the third period, but still quite mild.

A concrete example of how LTCB turns conventional ideas upside down



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Because this intelligent building is the hub of a network that coordinates and supports the work of our offices worldwide. So the expertise of every one of our specialists is always available to you, no matter which of our offices you talk to. Thanks to this pool of talent, you can rely on us for creative, high quality solutions, tailored to meet your specific financial requirements. When you need an innovative, independent industrial financier that combines global banking power with long-term vision, there's only one name you really need to know. LTCB—The Long-Term Credit Bank of Japan.



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GOLDEN HEARTBREAK

THE L. A. QUAKE COMPOUNDS THE STATE'S WOES

For 30 terrifying seconds, the earth shook as hard as anyone could remember. When it stopped, virtually all of Los Angeles' 3 million residents were left in darkness. Car alarms shrieked in the early morning confusion. Above the blacked-out city, a rare display of brilliant stars glittered eerily. Battery-operated radios brought news of collapsed freeways, blazing gas mains, crumbled apartment houses.

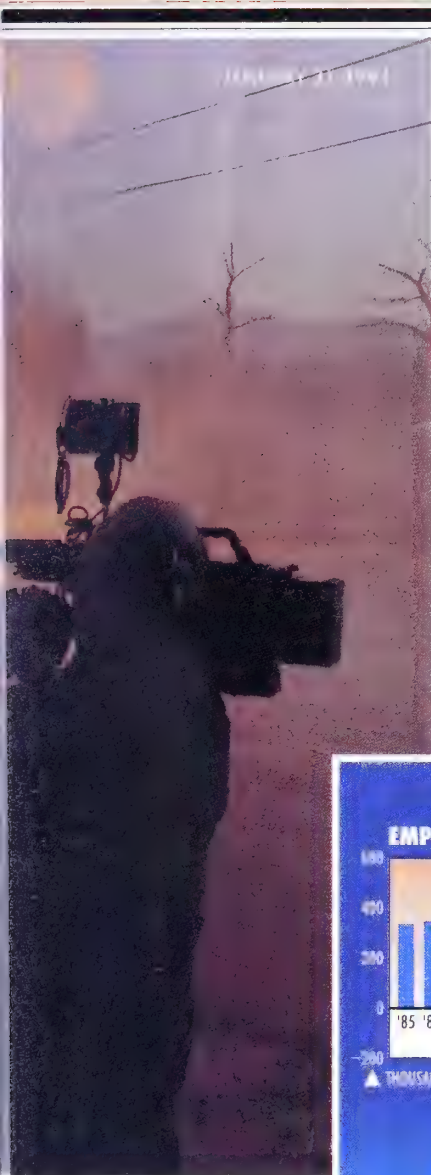
The earthquake that hit L.A.'s Northridge section on Jan. 17, the most powerful to shake the region in decades, leveled scores of buildings and killed dozens of residents. It also gave California's economy a brutal jolt. The effects will delay the Golden State's economic recovery by several months at least, until billions in insurance money and state and federal disaster relief funds arrive. And even after the city

rebuilds, the quake could constrain the state's efforts to attract new investment and to keep disgruntled businesses from leaving. Says Roger Brinner, economist at DRI/McGraw-Hill: "California just got another strike against it."

TRIPPED UP. On top of all the human drama and misery, economically, the quake's timing couldn't have been worse. After a three-year slump, California's economy was bottoming out. Its unemployment rate fell to 8.7% in December from 9.8% in October, and the pace of job losses at California-based aerospace contractors had slowed by 42% in the last half of 1993 from the first half. Retail sales and home buying were up, as was tourism. A revival in California, which accounts for about 12% of gross domestic product, would have boosted the national economy.

Now, crippled highways, damaged

homes, and lost business will delay any California rebound. Early estimates put the structural damage around L.A. well above the \$7 billion in damage sustained during the 1989 San Francisco earthquake—perhaps as high as \$30 billion. That doesn't include lost production at companies such as computer maker Packard Bell Electronics Inc., which abandoned its headquarters when an aftershock damaged the building on Jan. 19. An Atlantic Richfield Co. oil pipeline, a major conduit for Los Angeles basin refineries, burst and caught fire, destroying houses and cars. The pipeline will be closed for four days, and cleanup costs will be substantial. Add to those disruptions countless smaller ones: Organic Transport, a small produce-hauler, has seen its two-hour run into Los Angeles from Bakersfield stretched into an eight-hour marathon.



pact on the local economy, and then they are beneficial in the second, third, and fourth quarters" thereafter, says Robert Wescott, a senior economist on the President's Council of Economic Advisers.

Take the four freeways that need extensive rebuilding and the many condemned buildings that will be torn down and rebuilt from scratch. All that construction activity requires equipment and labor. "A whole lot of people in the building trades will be going back to work," predicts state Assemblyman Richard Katz, whose district includes several heavily damaged communities. Similarly, the earthquake could shave the nation's economic growth slightly in the early months of 1994 but stimulate growth by an equivalent amount in later quarters. Last year's Midwest floods subtracted 0.5% from growth in the third quarter of 1993 but added 0.5% later, says Mark Zandi, economist at Regional Financial Associates.

The looming question, however, is whether the quake convinces businesses and households to join the exodus from Southern California. Well before the dis-

while, are considering taking operations elsewhere. Taco Bell Corp., based in Irvine, says it may move to either Texas or Georgia. Montgomery Ward & Co. has decided not to expand in California, opting for Arizona instead (page 34). Says Bernard F. Brennan, chairman of Ward's, which does 20% of its \$5.7 billion sales in California: "I think the quake will create an enlarged migration out of the state."

With good reason. The direct loss of wealth from the disaster will prove enormous. Moreover, Los Angeles' highway transportation system was hit hard. A damaged infrastructure could further discourage businesses from expanding in the region. "If the transportation system is revealed as more fragile than before, that could have long-term implications for future investments," says David Hensley, economist at Salomon Brothers Inc.

COLORADO'S GAIN. And even as Los Angeles rebuilds, nearby states will be eagerly trying to encourage more migration. Development officials say they're backing off just now, in deference to

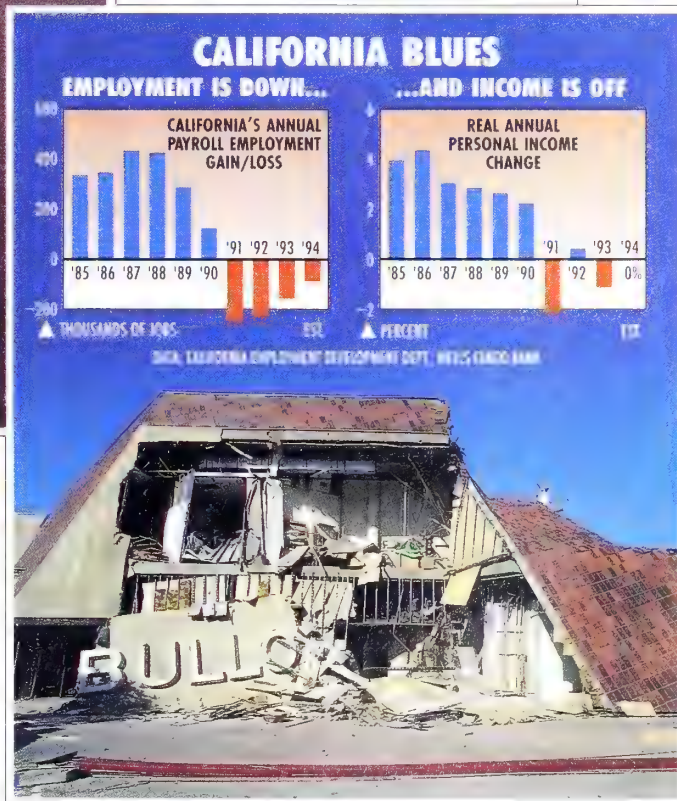
good taste. But Colorado, for one, has attracted 30,000 Californians in the past year. "Every six months there's more bad news from Southern California," says John M. Mullins, Colorado's director of business development.

California is fighting back. Last year, Governor Pete Wilson and the state legislature made headway in improving the state's business climate, overhauling its much-maligned workers' compensation system and streamlining its environmental-licensing process, among other things. Northern California's economy, moreover, is relatively strong.

After the quake, though, the California dream looks ever more tarnished. Just ask Ari Celik. As workers toiled to rescue victims in Northridge, she sat dazed in front of the twisted pile that had been her dry cleaning business, Mirage Cleaning and Laundry. Without earthquake insurance, rebuilding may be

out of the question. "People have already been leaving California," said Celik. "Now, there's just one more reason to go." All too many businesses may be getting the same idea.

By Eric Schine and Amy Barrett in Los Angeles, Christopher Farrell in New York, and bureau reports

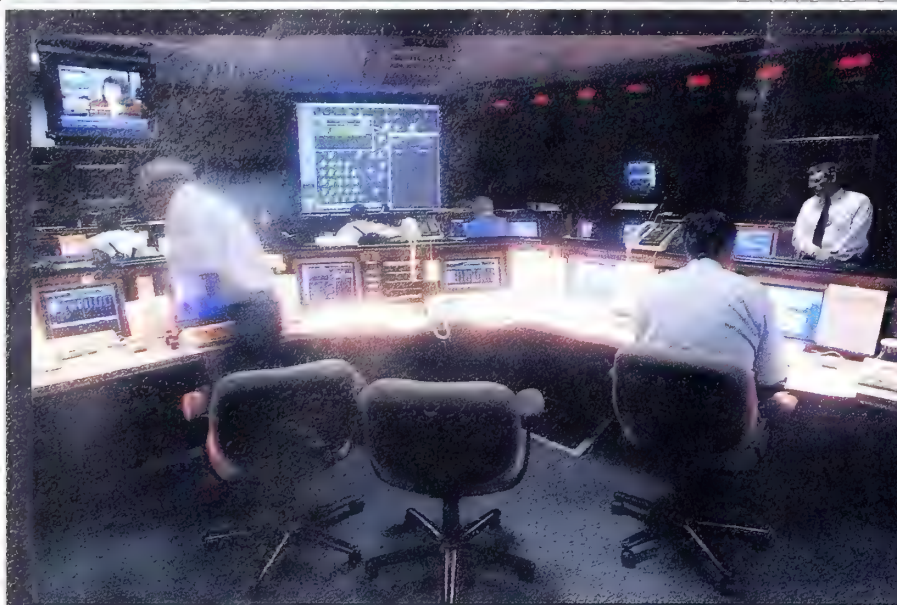


LIVE FROM HELL: FIRE, WATER, AND GRAVITY CONSPIRED TO DEVASTATE INFRASTRUCTURE HANGING FROM GAS MAINS TO HOPPING MALLS. REPAIRS WILL TAKE YEARS

Certainly, there's an upside: Billions in insurance money, as well as federal and state disaster-relief funds, will flow into Southern California, allowing the region to rebuild. Industry experts estimate \$1 billion to \$2 billion in insured losses, and the Federal Emergency Management Agency and other U.S. agencies expect to spend at least \$2.5 billion for disaster relief. Eventually, businesses and households will also dip into savings to replace broken furniture and damaged cars. In this way, natural disasters "have a negative short-run im-

pact on the local economy, and then they are beneficial in the second, third, and fourth quarters" thereafter, says Robert Wescott, a senior economist on the President's Council of Economic Advisers.

A host of California employers, mean-



MORE MACHINES, FEWER WORKERS: A GTE NETWORK OPERATIONS CENTER IN TEXAS

THE AX KEEPS FALLING

Restructurings announced since Jan. 7

ARCO As part of a reorganization of oil and gas operations, Arco will take an aftertax charge of about \$450 million and cut about 1,300 employees

GILLETTE It will take an aftertax charge of \$164 million and lay off 2,000 employees over the next two years, to refocus on emerging markets

GTE On Jan. 13, it announced 17,000 job cuts, most of them in its core local telephone business, forcing a \$1.8 billion pretax fourth-quarter charge

PACIFIC TELESIS The regional Bell company will reduce its work force by 10,000 over the next four years and take a \$665 million aftertax charge

SOURCE: COMPANY REPORTS, BUSINESS WEEK

LET THE GOOD TIMES ROLL —AND A FEW MORE HEADS

Corporate America isn't letting a little growth stand in the way of layoffs

By most measures, times are flush at GTE Corp. The Stamford (Conn.)-based telephone company is a leader in the fast-growing wireless world. Phone use is up, and operating income rose a tidy 5%, to \$3.3 billion, through last year's third quarter. Shareholders earn a healthy 5.4% dividend.

So much for the good news. On Jan. 13, GTE Chairman and Chief Executive Charles R. Lee said the \$20 billion company would take a pretax charge of \$1.8 billion in the fourth quarter and lay off more than 17,000 employees, the bulk of them in its core local telephone business. GTE, Lee explained, must replace workers with computerized equipment. "The time to improve your company," he says, "is when you see the marketplace and technologies changing."

Funny thing. U.S. economic growth is expanding at a considerable clip: Economists figure growth in the fourth quarter of 1993 will come in at over 4% (page 23). Yet some of the best and brightest among America's big corporations are continuing to restructure. In the year's first fortnight, such stalwart—and profitable—outfits as Gillette, Eli Lilly, and Arco have announced significant layoffs and financial charges. More are coming: Insurance giant Aetna Life

& Casualty Co. is expected to detail a major restructuring within weeks. Even in technology sectors where the U.S. is a clear world leader, big companies are cutting back. In addition to GTE, Pacific Bell, Xerox, Electronic Data Systems, and American Telephone & Telegraph are all hacking away.

What's going on? Simply put, executives are nervous. They hear increasing demands for greater value from customers, and feel the relentless pressure of global competition and fundamental shifts in technology. Haunting nearly everyone is the memory of those that have stumbled—IBM and General Motors, among others—and the well-publicized dismissals of CEOs who didn't act quickly enough. "If there's any sense at all of room to improve, the pressure's on," says George Burman, dean of the Syracuse University School of Management.

"ROOM TO IMPROVE." Take Xerox Corp. Barry Romeril was brought in as chief financial officer from British Telecommunications PLC last summer to add a little fire to top management. Romeril quickly set to work comparing the office-equipment company's performance with other companies. "We knew we had room to improve," he says. Not only that, earlier attempts to improve effi-

ciency had done little to cut overall overhead, which actually rose. The result: Xerox' pre-Christmas statement that it would cut 10,000 jobs and take a \$1 billion-plus charge to remain fighting fit.

In telecommunications, the rapid change from electromechanical to digital switching and the entry of new competition are rewriting the rules of the game: American Telephone & Telegraph Co.'s long-distance arm expects to lay off thousands as it replaces human operators with computerized voice-recognition systems. High-growth computer-services star Electronic Data Systems Corp. is biting the bullet, too. "We grew so rapidly for so many years that our solution to most problems was to throw more people at them," says Chief Financial Officer Joseph M. Grant. Time now for a "fiscal fitness" regime: EDS ended 1993 with an estimated 800 fewer workers than in 1992.

And the opening of markets in countries such as India, Russia, and China is leading Gillette Co. to consolidate factories and offices in established regions in order to expand in emerging markets. "We're acting from strength, not weakness," says CEO Alfred M. Zeien. "We want to organize ourselves to cope with changing geopolitical conditions."

The alternative, of course, is having to cut costs after the damage is done. That's what Procter & Gamble Co. wants to avoid. Its administrative and other overhead costs rose by 2 percentage points, to 14.5% of its \$30 billion in sales, over the past three years, at a time when consumers were demanding more value and low-priced competition

was thriving. Increases in productivity helped P&G improve earnings—but the company knew it had to get leaner to remain competitive. So Procter is paring employment by 13,000, or 12%, cutting layers of management to speed decisions and closing about 20% of its 147 factories. Similarly, cutthroat competition in the beer business is forcing Coors Brewing Co. to use early retirement and voluntary buyouts to cut its brewery workforce by about 600, or 25%.

For the American worker, the thought that even the healthiest of companies are shedding pounds is not a pleasant one. The bad news is that such corporate dieting isn't going to stop anytime soon. But in contrast to a couple of years back, the latest series of layoffs comes as the U.S. economy is finally generating substantial new jobs, many of them at leaner, nimbler, smaller companies that have not yet developed a midriff bulge. In the fourth quarter, esti-

mates consultant John A. Challenger, general manager of the Chicago outplacement firm Challenger, Gray & Christmas Inc., the economy added 500,000 new jobs beyond those lost to layoffs. And the average time spent finding a new job dropped to 13 weeks, from 15 weeks last spring. Cold comfort, perhaps. But flush times just ain't what they used to be.

By Tim Smart in New Haven, with bureau reports

Commentary/by Howard Gleckman

THE TAX HIKE WON'T DERAIL THE RECOVERY

Back in August, when President Clinton's five-year, \$240 billion tax increase passed the Senate, critics predicted the worst. "Make no mistake," warned Senator Orrin G. Hatch (R-Utah), "these higher rates will cost jobs."

Well, a funny thing happened on the way to Armageddon. The economy, which was growing at an anemic 1.3% annual rate before the tax hike became law, expanded at more than twice that rate during the second half. What's more, economists figure growth reached 4% or more in the fourth quarter. And in the six months since Clinton signed the measure, nearly a million new jobs have been created, while personal consumption has grown by close to 4%.

Does all this mean that the road to economic nirvana is paved with tax hikes? Even self-promoting Clintonites don't believe that. But it does suggest that fears about the impact of a modest tax increase were overblown.

The 1993 law raised corporate rates, boosted the gasoline tax by a nickel a gallon, and whacked the wealthiest 1% with a hefty rate increase. But the biggest hits were retroactive to Jan. 1, 1993. The upshot? "If there was going to be a dramatic impact, we would have seen it," says Peter R. Merrill, a senior tax economist at Price Waterhouse.

GAMESMANSHIP. So what went right? The main reason the tax bill faded in macroeconomic importance was its small size. The measure's roughly \$20 billion a year in individual tax hikes amount to less than 0.5% of personal income. That impact is dwarfed by big-

ger changes in the economy—namely, the cyclical upturn after nearly four years in the doldrums, and the sharp drop in interest rates.

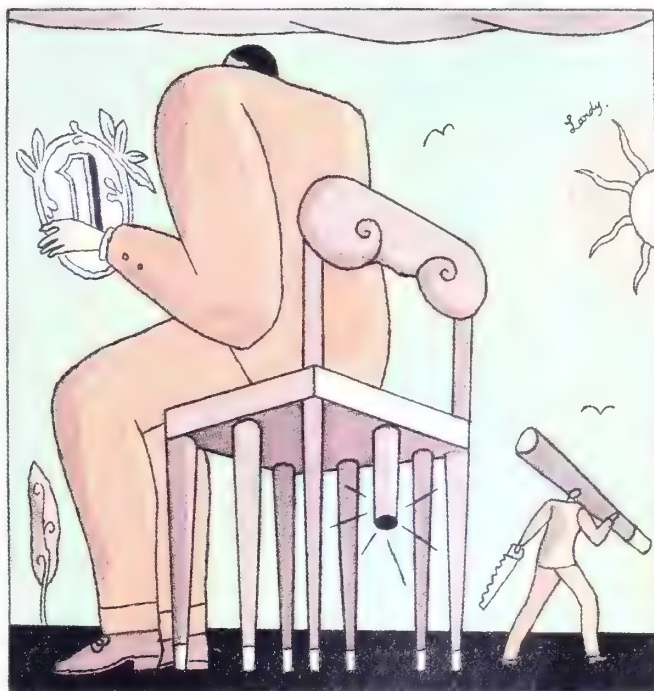
Moreover, the tax rise may be even smaller than advertised. Analysts such as Harvard University economist Martin S. Feldstein argue that the measure will fail to raise much revenue because smart taxpayers will duck higher levies

If the tax law hurt Joe Lunchbucket, this argument might have merit. But the targets of the measure are more sophisticated. Half of those who make more than \$200,000 pay estimated taxes each quarter and would have felt its impact as early as last September. For them, writing a bigger check on Apr. 15 "won't come as a big shock," says Randall Weiss, an economist at Deloitte & Touche.

REINING THE FED. That said, was the tax increase a good thing? To the degree that it took money out of citizens' pockets and trimmed private savings, the answer is no. But if the measure helped forge a deficit-reduction plan that the bond markets found credible, it probably deserves some credit for 1993's falling interest rates. The rate drop may even offset much of the short-run drag of the tax hike itself. And the budget deal may have helped persuade the Federal Reserve to stay off the monetary brakes last summer.

The 1993 budget package would have been improved if the plan had included more spending cuts and fewer taxes. But with the Democrats in control of the White House and Congress, any budget measure had to include higher taxes on the rich. As it happened, this one came just as the economy started gaining momentum on its own—the best possible time to hike taxes. Just ask Ronald Reagan, who signed a much bigger tax increase in 1982—and watched the economy grow nonstop for six years.

Gleckman covers economic trends from Washington.



by shifting income to capital gains or buying bigger houses with larger mortgage deductions. Joel Prakken, an economist at Laurence H. Meyer & Associates, estimates that this gamesmanship will trim the Treasury Dept.'s anticipated receipts by 20%.

O.K., the law's critics insist, it didn't have much impact in 1993. But just wait until this year, when higher taxes show up in withholding and people file their '93 returns.



CALIFORNIA CHIPS: WITHOUT HARD-AND-FAST TARGETS, WILL JAPAN REALLY RESPOND?

TRYING A LITTLE TENDERNESS WITH JAPAN

Mickey Kantor & Co. start talking "convergence" instead of combat

When the Clintonites rode into Washington last January, they were gunning for Japan. Administration officials were convinced that tough rhetoric would be enough to shrink a \$50 billion trade imbalance and boost U.S. sales in the world's second-largest market. The "framework" agreement reached last summer, they reckoned, had finally committed the Japanese to achieving measurable results.

But as President Clinton prepares for a Washington summit with Prime Minister Morihiro Hosokawa on Feb. 11, signs are growing that the Administration is backpedaling on trade just as resistance in official Japan stiffens. Japanese bureaucrats have made it clear they have no intention of committing themselves to measurable foreign market-share increases in several key industries: auto parts, insurance, health-care equipment, and telecommunications. Daily barrages from Tokyo accusing Washington of trying to dictate U.S.-Japan commercial relations are taking their toll. "We've lost the high ground," laments one senior Clinton official.

Rather than ruin the Washington summit by declaring a trade war it might not win,

the Clinton camp is hastily arranging an alternative strategy. Call it Plan B. In this version, some outward traces of the get-tough approach will certainly remain. Both sides, for example, will probably agree to track the number of foreign car distributorships in Japan. U.S. officials have also bypassed the bureaucrats and directly asked Japan's auto makers to sell more of Detroit's cars in their home markets. The result: Tokyo Nissan Motor Sales recently announced it would be selling Ford cars as early as April, and Toyota Motor Corp. will sell 20,000 Chevrolet Cavaliers a year, starting in 1996.

But from there, things get squishier. Reaching benchmarks in other categories, for example, may pose tougher problems. Yet while an agreement that

merely calls for more talks or changes in Japanese bidding rules clearly won't cut it for trade hawks, the Administration seems ready to deal. Even while Washington is likely to demand more market access for key industries, it is preparing to give Tokyo some easy outs—clauses allowing Japan to ignore targets if its economy doesn't improve.

TRADE THEORISTS. Such waffling may not be a momentary strategy, either, judging by the statements coming from some Clinton heavies. Even the bulldog of U.S. trade policy, U.S. Representative Mickey Kantor, seems mellowed. When asked what the overriding Administration goal is in the bilateral talks, he now speaks of achieving "convergence" in the two economies—a return to a more traditional strategy of getting Japan to behave more like the U.S.

And some other Administration figures also privately want to abandon the hard-line approach entirely. The time and resources devoted to fruitless negotiations with Tokyo, they contend, would be better spent on efforts to open emerging markets in Asia and Latin America.

The idea of taking a softer approach largely comes from a new book, *Reconcilable Differences? United States-Japan Economic Conflict*, from the Institute for International Economics. The book's authors, IIE Director C. Fred Bergsten and Marcus Noland, a senior economist at the Council of Economic Advisers, advocate opening the Japanese market by relying on aggressive promotion of joint ventures—in effect getting the Japanese to "invite" U.S. companies to join Japanese cartels. They also back a bilateral system for managing the yen-dollar exchange rate on the theory that persistent currency misalignments have been at the heart of the U.S.-Japanese trade tensions.

To trade hard-liners, such talk of convergences and joining the *keiretsu* is worrisome. They see these philosophical constructs as a cover for a return to the ineffective reforms of the Bush Administration. "If [U.S. negotiators] lose sight of the numerical targets, their credibility will be shot," warns Robert Orr, Motorola Inc.'s director of government relations in Japan. But with Japan's economy in recession and Hosokawa's political reforms hanging in the balance, Washington has changed its tune. Tough talk, yes. Tough actions? Maybe later.

By Douglas Harbrecht in Washington and William Spindle in Tokyo

SORE SPOTS

Key points in U.S.-Japan trade talks

AUTOS

U.S. wants faster growth of foreign dealer ships in Japan.

AUTO PARTS

U.S. wants Japanese auto makers to buy \$19 billion in parts from U.S. suppliers.

MEDICAL EQUIPMENT

Global share for U.S.-made equipment is 47%. In Japan, it's stuck at 20%.

SEMICONDUCTORS

American chipmakers want retaliation if market share in Japan falls below 18%.

DATA BY MICHAEL WELLS

'A SHORT LEASH' AT ZENITH

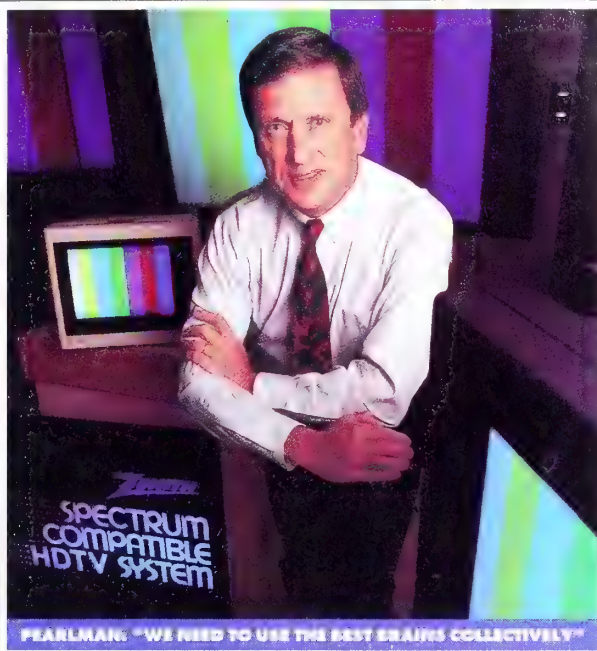
After years of red ink, the board is strictly monitoring CEO Pearlman

It's a label no boss lives with easily, and Zenith Electronics Corp. Chairman and Chief Executive Jerry K. Pearlman is no exception. Yet for most of his decade at the helm, Pearlman has been known as the "embattled" leader of the TV maker. He has had to beat back angry shareholders in proxy battles and defend a record of five straight years of losses, totaling \$332 million (chart). Now, outside Director T. Kimball Brooker, who heads the board's executive committee, says the 54-year-old Pearlman is on "a short leash."

Is Pearlman finally about to be sacked, like he once-powerful chiefs at IBM, General Motors, and Westinghouse? Probably not—at least for now. That's because Zenith's board is taking a central role in crafting strategy and making peace with shareholders. The board is backing Pearlman and his vision of a profitable new world for high-tech televisions. "He's a first-rate CEO," says Brooker. Yet should the company's latest plan not bear fruit by yearend, Pearlman's successor seems to be ready. Last summer, the board promoted 41-year-old Albin F. Moschner, who joined Zenith in 1991, to president and chief operating officer.

HECKLIST. The board's activism was purred as long ago as late 1992, when Zenith's core TV business was careening, while losses mounted in its screen-ionitor and cable-devices units. Brooker, former Morgan, Stanley & Co. managing director who is now president of privately held Barbara Oil Co. in Chicago, concluded that the board "needed to have much more involvement in the oversight of management."

A first step was to meet far more often. Last year, the board convened every month, vs. just five times in 1992. Meanwhile, a dormant finance committee—now transmuted into a potent executive committee of three outsiders—met 11 additional times. Tightening controls further, the board insisted on tracking a



checklist of 20 items, ranging from sales to liquidity. It also changed compensation to link bonuses of up to 50% of salaries exclusively to the company's financial performance.

Pearlman appears resigned to the close monitoring. "In a very troubled industry, we need to use the best brains collectively to find a way through the mine field," he says. The 23-year Zenith veteran leaves no doubt that the board's influence has been far-reaching. Last year, the board provided major input on a plan to raise \$25 million in new equity and for refinancing \$34.5 million worth of high-cost junk debt at cheaper rates. More important, the board pushed a December decision to shrink capacity at Zenith's Mexican TV assembly plants and reduce a costly commitment to high-resolution picture tubes and computer monitors. That move means a fourth-quarter charge of \$30 million, but it should save \$50 million in costs in 1994.

This behind-the-scenes activity is buying time with shareholders, who have

seen Zenith shares sink from 38% a decade ago to 8 today. Last fall, the huge California Public Employees' Retirement System, which regards Zenith as one of its weakest holdings, filed a shareholder resolution calling for a key director to be chosen as a counterweight to the chairman. After a Jan. 13 meeting of CalPERS and Zenith officials, the pension fund's manager decided to withdraw the resolution, satisfied that Brooker is the board's de facto leader.

BODY BLOWS. Several new shareholders also seem to think a Zenith comeback is possible. In private placements last year, Zenith sold equity to Portland's Crabbe Huson Group Inc. Crabbe Huson portfolio manager John E. Maack Jr. says he's betting that Zenith is either a mini-Chrysler Corp. emerging—or a liquidation candidate worth up to \$10 a share.

Maybe. But it's an uphill battle, given Zenith's modest balance sheet and its war against such global powers as Sony, Matsushita, Philips, and Thomson. Zenith must marshal its meager resources to invest in new technology while taking body blows in an industry where no one is believed to be making money at the moment.

Rivals do notice an increased aggressiveness by Zenith in the television market, with the company upgrading models, pricing more competitively, and pushing into mass-market retailers. The newly streamlined Mexican operations, overseen by Moschner, should provide the company with a big cost advantage in TVs now that tariffs are being eliminated. Continued strong U.S. TV demand, on top of a cost structure that is \$222 million below 1990 levels, may result in a \$24 million profit this year, says Standard & Poor's Corp.

For the future, Zenith has been among the most active companies probing new areas, such as high-definition television, links between cable TV and personal computers, and ways to sharply boost capacity on cable channels.

Pearlman insists that the company has adequate financing for the next two years. And he knows the time to act is now. "Our strategy is to make money in color TV and consumer electronics and not hang on by our fingernails until high definition or digital technology bails us out." If he fails, more than his job may be at stake. Zenith may go the way of the black-and-white TV.

By Richard A. Melcher in Chicago and Judith H. Dobrzynski in New York



RANDALL TOBIAS TAKES A PRUNING HOOK TO LILLY

The new CEO means to spin off six units and focus on pharmaceuticals

Not long after he took the helm at Eli Lilly & Co. last June, Randall L. Tobias directed a group of executives to go over his head for a solution to the company's problems—one story over his head. In Lilly's executive dining room just above the chairman's office, two strategic-planning committees met to hammer out an agenda for the Indianapolis-based health-care giant. On Jan. 18, Tobias unveiled the results of that work: He plans to spin off Lilly's \$1.3 billion medical-device and diagnostics businesses and focus exclusively on its core pharmaceutical operations.

It's a long-overdue restructuring—and a sizable risk. The divestiture will rid the company of products whose manufacture and marketing shared little with those of drugs, the company's main money-maker. But it also will put the onus on a pharmaceutical operation challenged by the new economics of U.S. health care even while its new-product pipeline has slowed to a trickle.

NO SURPRISE. Tobias thinks the timing is right. The discontinued businesses provided operating profits of about \$260 million last year, a 20% margin. But they distracted management attention from the mainline \$4.74 billion drug business, which analyst Robert C. Hodgson of Cowen & Co. estimates produced operating margins of 32.5%. "This helps us clear the table," Tobias says, freeing the company to focus on buttressing its distribution channels. Armed with a healthy balance sheet, plus perhaps \$550 million in cash that it may raise from divestitures, Lilly will consider acquiring distributors.

The move marks Tobias' first strategic initiative since the former American Telephone & Telegraph Co. executive took charge seven months ago. At the time he succeeded the popular Vaughn

D. Bryson after a boardroom revolt orchestrated by former Chairman Richard D. Wood, Tobias did not have a detailed game plan. Heck, he admits, he hardly knew the business—despite serving on Lilly's board since 1986.

But Tobias spent several whirlwind months learning Lilly, rebuilding tattered ties to Wall Street, and outlining a cost-reduction program that includes the elimination of 4,000 positions. The price tag for the job cuts and other

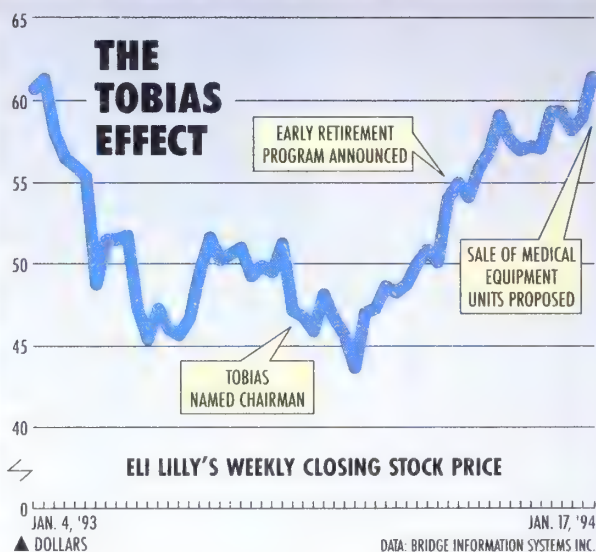
shaky drug operation. Its highly profitable antibiotic Ceclor loses its patent protection this year, and new competitors are poised to challenge its Prozac antidepressant, worth \$1.2 billion in sales last year. The problem: "For '94 and '95, our new-product outlook is fairly anemic," admits August M. Watanabe, Lilly's head of research.

Watanabe has restructured the research operation, eliminating three of eight major working groups, and emphasized development of line extensions to Lilly's most profitable products. But even with some 900 scientists spending nearly \$1 billion a year to investigate 40 basic compounds, breakthrough drugs to treat such maladies as osteoporosis, schizophrenia, and diabetes won't hit the market for at least two years.

Lilly has plenty to catch up on outside its labs, too. In the drug industry, pur-



TOBIAS: THE STREET HAS APPLAUDED HIS CUTS



internal streamlining: a \$1.2 billion charge against 1993's fourth quarter. Lilly's stock has responded, rising 40% from its August low, to \$60.

The idea now, Tobias explains, is to refocus Lilly on some key questions: "What do we have, what do we need, and what do we have that we don't need?" It's no surprise that Lilly's medical-equipment operations didn't measure up. Its Hybritech Inc. has lost a large part of the prostate-cancer test market to rival Abbott Laboratories. Competitors such as Medtronic Inc. have outflanked the company's Cardiac Pacemakers Inc. with new-generation wares. And Lilly's Physio-Control Corp. defibrillator unit had to stop some production for a year in 1992 after a negative Food & Drug Administration review.

After shucking off the weak businesses, Lilly now will need to rejuvenate its

chasing power is shifting from wholesalers to managed-care providers—whom Lilly has only begun to court. "We can't just push pills out the door anymore," says Sidney Taurel, president of Lilly's pharmaceutical division. So more than 100 people at Lilly's Indianapolis headquarters now help HMOs and other customers plan drug therapies, up from only 14 doing that work a year ago.

That's the kind of change Tobias wants. In his first days on the job, the CEO decorated his office in a way he hoped would symbolize his tenure. He hung an oil painting, commissioned long ago, of a drug wholesaler that was founder Eli Lilly's first sale. The message was clear: Lilly had to refocus on its customers. Now, amid the layoffs, divestitures, and acquisition plans, Tobias must turn that message into results.

By David Greising in Indianapolis

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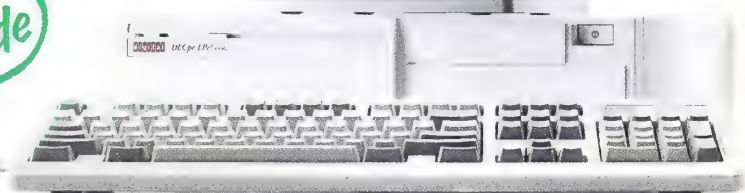
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Beyond the box.

IS PEACE COMING TO MONTGOMERY WARD?

The return of some former executives may mean the turmoil is over

Nobody disputes that Montgomery Ward Chairman Bernard F. Brennan did a masterly job of reviving the tottering retail giant during the mid-1980s. But with a herd of managers departing in the 1990s—including three senior executives just last year—Brennan has started to win more renown as a boss too tough to work for. On Jan. 17, though, one ex-exec did sign back on: Bernard W. Andrews returned from Circuit City Stores Inc. to assume the president's job vacated last month by Harold Kahn. A few other Montgomery Ward & Co. veterans are straggling back, too—a sign, perhaps, that Brennan realizes he needs some help.

Certainly, Ward's is no easy company to manage. Since 1991, it has suffered from declining earnings and slowing sales, even though last year, company executives say, sales jumped 10%, to \$6 billion. The recession hurt, but the retailer has hurt itself by mismanaging its apparel business, which generates 30% of sales. Pricing pressures have also eroded jewelry and consumer-electronics profits. Says New England Consulting Group principal Gary M. Stibel: "Ward has a tough road ahead."

BRUTAL PACE. Brennan isn't shaken. "I have a passion for this company," he says. "It has a bright future." Since orchestrating a \$3.8 billion leveraged buyout in 1988, Brennan has expanded Ward's while slashing buyout debt 80%, to \$200 million. The stores, once known as ho-hum general merchandise emporiums for blue-collar shoppers, also got some added pizzazz with the introduction of new specialty formats. The Electric Avenue consumer-electronics department, for example, is part of this "store in a store" strategy that produced sound profits during the early 1990s when rivals such as Sears, Roebuck & Co. floundered.

Recent developments, though, have led some to wonder whether Brennan is still the right chief for the company. First is the problem of Ward's image in

the competitive 1990s. "It's difficult for consumers to understand what Ward's stands for," says Christopher Ohlinger, president of Service Industry Research Systems Inc., which tracks consumer feelings towards retailers.

Management unrest hasn't helped. Former executives say the hard-driving Brennan burns managers out, and he isn't shy about intervening in their work. "He's a micromanager," says one former executive. "Every new product has

from Bugle Boy, Lee, and Cherokee.

But Ward's has never had the kind of success in apparel it enjoyed in consumer electronics and furniture, where double-digit sales growth continues. Brennan admits the unit has adopted new strategies too often. Over the last year, for example, Kahn and Ball, both former R. H. Macy & Co. executives, led a move to broaden selection in apparel. But the offerings became "too eclectic," says Andrews, and confused customers. So while Sears logged double-digit apparel sales increases in 1993, growth at Ward's was mired in the low single digits. Something had to give.

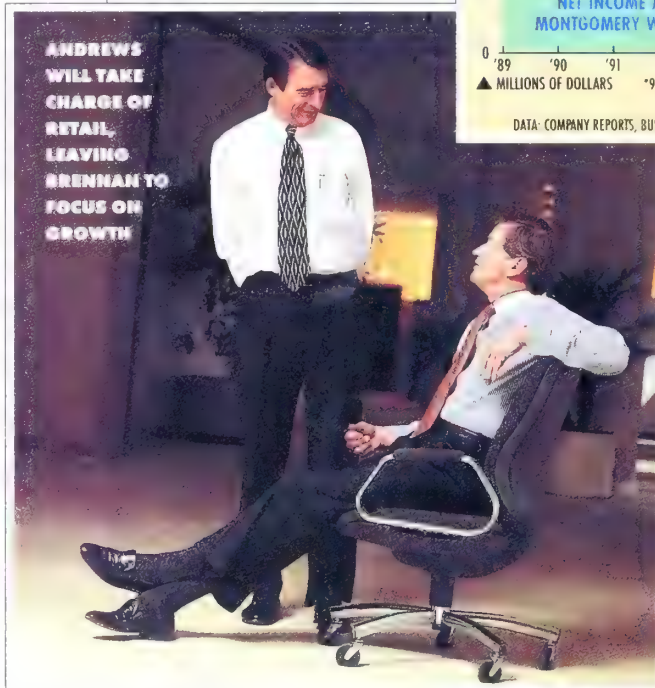
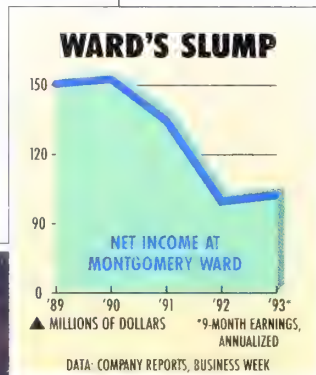
Enter Andrews. During the mid-1980s, he helped forge Ward's growth strategy, and Brennan believes he can revive apparel. Brennan and Andrews want to refocus apparel around a few key brands, while pumping out more high-margin private-

label goods. The strategy has worked well at Electric Avenue, where Ward's Admiral TVs sell next to pricier Sony and Panasonic sets. Brennan also named Robert Connolly executive vice-president for apparel on Jan. 6. Connolly returns to Ward's after running Wal-Mart Stores Inc.'s women's apparel business.

NO RETREAT. Life at Ward's may calm down now that Andrews is back. Brennan plans to leave retail operations in his hands and focus more on future opportunities. Still, no one thinks Brennan, who owns 30% of Ward's, is beating a retreat. He plans to expand the direct-marketing arm, the Signature Group, which sells such services as auto clubs. To help out Brennan, yet another ex-Ward's official, former Chief Financial Officer Dominic Mangone, has returned as a consultant.

But can Brennan keep his new team together long enough to revive Ward's? "My prediction is they'll leave, too," snaps a former executive. "Everyone else has." Andrews, Connolly, and Mangone should know, however, what life with the boss is like. If they can't take the heat, it's hard to imagine who will help Brennan get Ward's cooking again.

By Kevin Kelly and Greg Burns in Chicago



ANDREWS WILL TAKE CHARGE OF RETAIL, LEAVING BRENNAN TO FOCUS ON GROWTH

to go before him." One source close to the company says Andrews' departure in 1990 to Circuit City was prompted by a falling out with Brennan. Says Andrews: "I've been away on a continuing education program in specialty retailing. I'd rather not deal with how I got there."

Brennan doesn't deny that he sets a tough pace. "It's a rough-and-tumble business," he says. He notes that many of those who left, including Kahn and Executive Vice-President Lester Ball, have worked in the struggling apparel operation. Like Sears, Ward's went out after name brands, trying to spruce up its dowdy image with apparel lines

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THE THRILL OF VICTORY, THE AGONY OF PAYING FOR IT

Rights to the Japan Olympics are a tonic for CBS, but at what cost?

Laurance A. Tisch was not about to admit it. But the CBS chairman sure looked relieved at a Jan. 19 news conference. His network was announcing that it had won the rights to televise the 1998 Winter Olympics in Nagano, Japan, for \$375 million. Coming just a month after CBS lost pro football to Fox Broadcasting Co., the news was a sorely needed tonic for his depleted network. Says Tisch: "This is one game we wanted to be in." Now, though, media watchers wonder if, in his thirst for the games, Tisch has paid too much.

CBS could ill afford to come up a loser. In addition to the NFL's National Football Conference, it watched Major League Baseball migrate to ABC and NBC last year. At this point, it is relying on the 1994 winter games, which begin Feb. 12 in Lillehammer, Norway, to keep it in the TV sports game. If CBS Sports had let this franchise go, too, it might as well have changed its old ad slogan from "dream season" to "lean season."

SAVING FACE. By nabbing the Nagano games, Tisch also evened the score somewhat with Fox's Rupert Murdoch, whose \$1.5 billion bid for the NFC banished CBS from pro football for the first time in 38

years. Murdoch had expressed similarly keen interest in the games, and rival executives expected another showdown between CBS and Fox. But after several weeks of talks, Murdoch and the International Olympic Committee agreed that Fox had probably bitten off as much as it could chew with football.

For all its poetic justice, Tisch's deal carries big risks. CBS has never done better than break even on the Olympics. Tisch may grudgingly accept the escalating fees (table). But when the IOC named its price to other networks, ABC and NBC demurred. Says NBC Sports President Dick Ebersol: "There was a good chance that we would be stepping off into the great unknown."

Among the dangers, Ebersol notes that broadcasting from Japan will inflate production costs. CBS has been able to keep down costs in Lillehammer because it had already ramped up for Albertville and much of its technical equipment has been stored in European warehouses. In Japan, though, CBS could

face production costs of \$300 million to \$350 million, says PaineWebber Inc. analyst Christopher Dixon. That means the network would have to sell \$675 million worth of ads just to break even.

CBS executives point to Lillehammer as evidence that Olympics ad sales are on an upswing. Indeed, media buyers report that the network has sold about 97% of its commercial time and is getting a 15% to 20% increase in average ad rates over Albertville. CBS has been helped by everything from a better economy to the assault on figure skater Nancy Kerrigan, which has some people expecting high drama if Kerrigan competes with rival Tonya Harding.

But CBS has other advantages this year that it won't have in Japan four years from now. The network has offered Lillehammer and Albertville as a package to advertisers. CBS executives say 40% of this year's sponsors also bought time in 1992, which makes selling out the event much easier. Trouble is, this short interval between games is a one-time quirk that occurred when the IOC shifted the winter games to alternate with the Summer Olympics.

BOWL SHOPPING. Come 1998, the network may lack another key selling point. Olympic advertisers usually promote their sponsorships by buying commercials in major sports events before the games. On CBS, that has always meant appearing in football. Unless Tisch wins back the NFC after 1997, he can't offer this showcase. To compensate, sponsors expect the network to promote other sports, such as college football. "CBS will look at the bowl business more seriously," says David F. D'Alessandro, marketing chief at Olympic sponsor John Hancock Mutual Life Insurance Co.

One obstacle CBS can do little about is the 14-hour time difference between Japan and the U.S. East Coast. The network concedes that most prime-time coverage will be taped from the day before. Media buyers say this could annoy viewers who are used to getting real-time scores. CBS insists events such as figure skating will do just fine on tape: "Our audience watches for the quality of the event, much more so than who the particular winner is," says CBS Sports President Neal H. Pilson.

After the Kerrigan episode, that's arguable. But with CBS' sports fortunes now tied so closely to this quadrennial winter-fest, Tisch will probably take his viewers any way he can get them.

By Mark Landler, with Jon Berry, in New York



What CBS paid for TV rights to the Winter Olympics

1992	1994	1998
ALBERTVILLE, FRANCE	LILLEHAMMER, NORWAY	NAGANO, JAPAN
\$243 MILLION	\$295 MILLION	\$375 MILLION

DATA: COMPANY REPORTS

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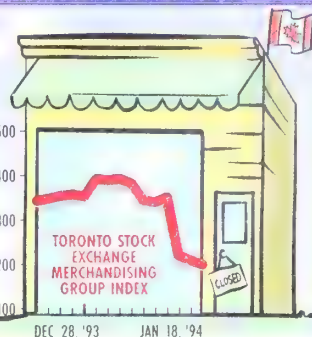
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WAL-MART JITTERS REACH CANADA'S STORES

It was Canadian retailers' worst nightmare come true. On Jan. 14, Wal-Mart Stores announced what amounts to a full-scale invasion of the Canadian market. It will buy 120 Woolco discount department stores from Woolworth Canada and is expected to build additional outlets of its own. Investors dumped the stocks of Canada's major retailers, including Canadian Tire and Hudson's Bay. Many analysts believe those chains are ill-equipped to meet price competition from the world's largest retailer.

DATA: TORONTO STOCK EXCHANGE

AMERICAN TRIES TO CLEAR THE AIR

American Airlines CEO Bob Crandall is not one to make the same mistake twice. In a bid to avert a confrontation with the pilots on the heels of a disastrous flight attendants' strike, Crandall and Allied Pilots Assn. President Richard LaVoy agreed on Jan. 18 to a proposal that would limit the negotiation period in coming contract talks—followed by mediation and binding arbitration if no agreement can be reached. It's an unusual and potentially risky move. Some question whether Crandall now will push an equity-for-concessions deal, such as that reached at United Airlines, since he is unlikely to

allow such a change to be decided by an arbitrator. American says it hasn't ruled out such a deal.

STATIC FOR COMPUTER STOCKS

Perhaps it's time to stay out of computer stocks. On Jan. 19, share prices in chipmaker Intel and workstation king Sun Microsystems slumped after both reported slightly lower-than-expected earnings. When Digital Equipment surprised Wall Street the same morning with a \$72 million loss for the quarter ended Jan. 1, investors ran for the exits: Digital shares tumbled \$3.75, to \$32.75. DEC, which in November indicated an end to red ink sometime in the fiscal year ending July 2, now says the turnaround will take longer.

A MALL MOGUL GETS MAULED

Shopping-mall developer Alfred Taubman keeps getting lost in department stores. Woodward & Lothrop, the Washington (D.C.)-based retailer that also owns Philadelphia's John Wanamaker, filed for bankruptcy protection on Jan. 17. Taubman shelled out over \$400 million for the two chains in the mid-'80s and is now the

HEADLINER

INMAN'S OUT. WHO'S IN?

Bobby Ray Inman's bizarre withdrawal as President Clinton's nominee for Defense Secretary has sent an embarrassed Administration looking to play it safe in its next choice. The list includes top government officials, business executives, and a former Republican senator.

Among the top candidates are Deputy Defense Secretary William Perry, who is an ex-vice-president of Hambrecht & Quist, a San Francisco investment banking firm, and CIA Director James Woolsey. Both men are popular with the Pentagon—a big plus for a President trying to rebuild his ties there. The Ad-

ministration also is mulling former Senator Warren Rudman, who now heads a lobbying group, and Senator John W. Warner (R-Va.).

Such politicians aside, the White House search team, headed by Chief of Staff Thomas McLarty III, is looking to corporate CEOs. Under consideration are Norman Augustine of Martin Marietta Aerospace; Paul O'Neill of Aluminum Co. of America; and John Young, formerly of Hewlett-Packard. As for Inman, a near sure choice for approval, top Clintonites are mystified by his withdrawal.

By Owen Ullmann and Susan B. Garland



largest unsecured creditor. He also owns 6% of the preferred stock of R. H. Macy, mired in bankruptcy court since 1992.

BIOTECH GROWS TWO NEW HEADS

Big drug and health-care companies once treated biotechnology as all sizzle and no steak. But as biotech has

proven its mettle, the tide has turned. Ex-Eli Lilly CEO Vaughn Bryson will become vice-chairman of Vector Securities, a Chicago investment bank that has helped fund and grow dozens of bio-outfits. Bryson passed up top jobs at other big drug companies, he says, because what's happening in entrepreneurial outfits "is much more exciting." And James Tobin, who in December resigned as president of Baxter International, is joining Biogen as president.

PHOTO FINISH

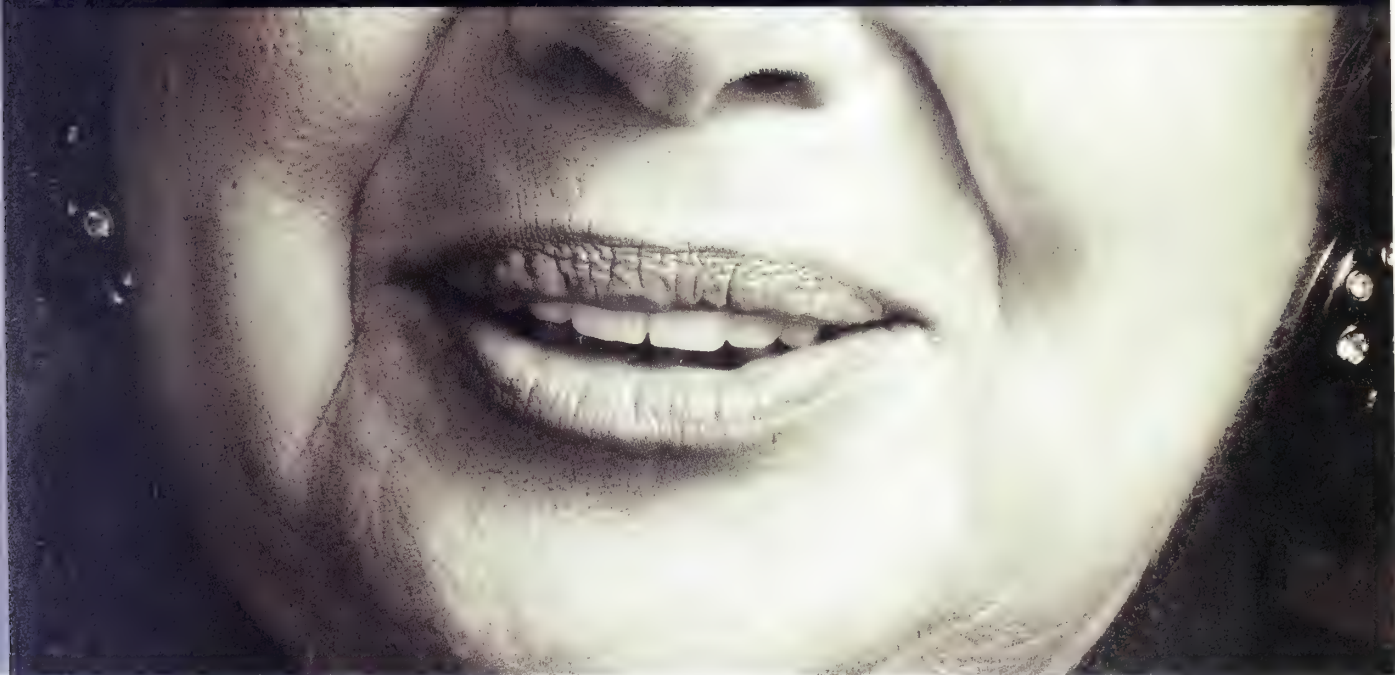


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- ▶ Procter & Gamble will discontinue its troubled Clarion brand of cosmetics.
- ▶ Warnaco is buying Calvin Klein's men's underwear operation for \$64 million.
- ▶ One more time: Viacom bid again for Paramount. Now it's QVC's turn.

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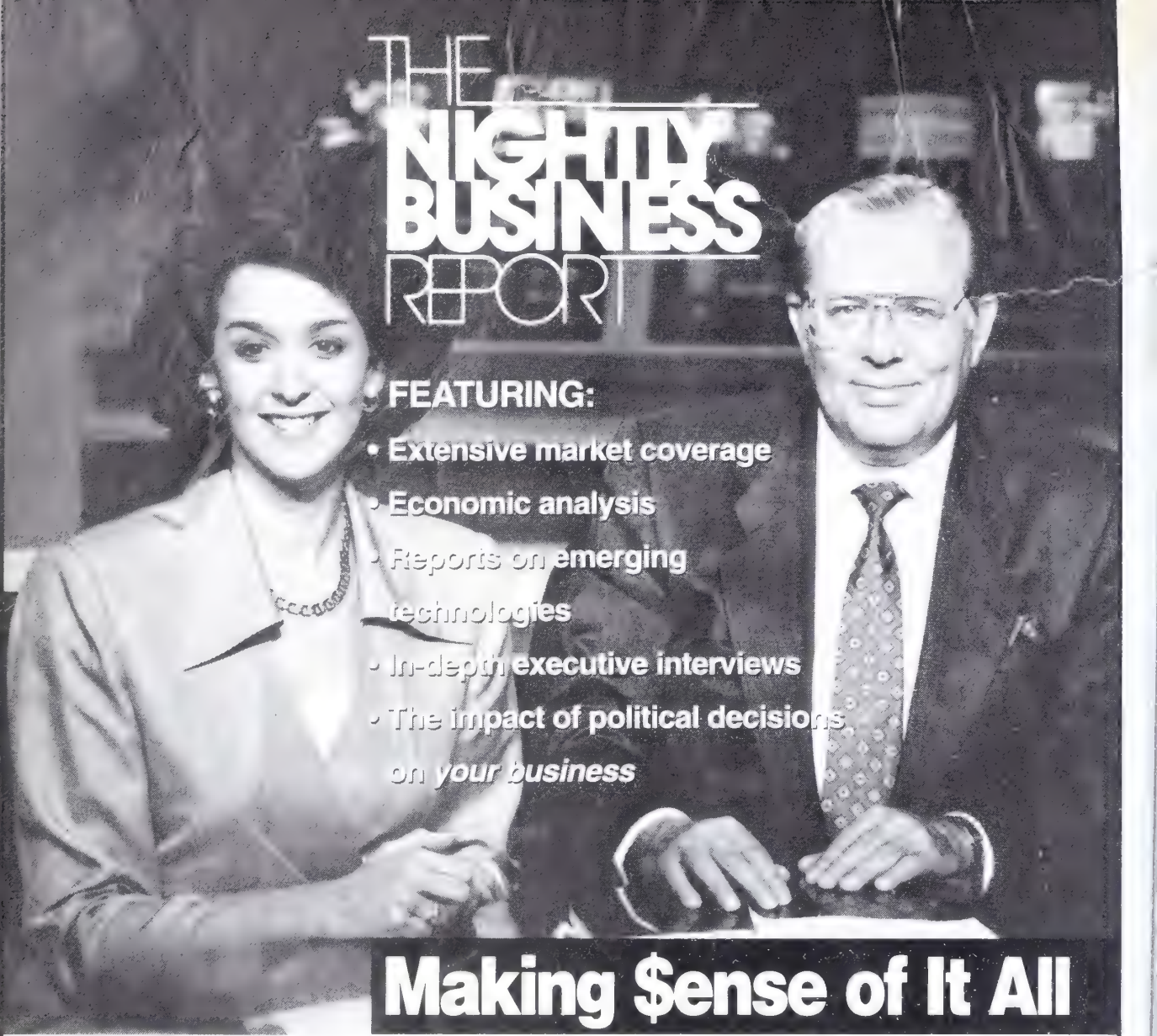
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LOCK AND LOAD: THE PENTAGON VS. THE TRUSTBUSTERS

The Pentagon and the Justice Dept. put on a show of unity on Jan. 19 when they jointly announced settlement of a civil collusion case against Alliant Techsystems Inc. and the Aerojet unit of GenCorp. Inc. The deal will save the government \$12 million in the purchase of cluster bombs. But behind the scenes, a dispute between antitrusters and the Defense Dept. is heating up. The defense industry is imploding as military budgets plunge. The Pentagon worries that without an orderly consolidation, it may end up without the industrial base it would need in a war.

Contractors fear that the aggressive antitrust stance of the Clinton Administration may get in the way. "For some defense contractors, antitrust has taken the place of the former Soviet Union as the greatest threat to our national security," cracks Steven A. Newborn, litigation director for the Federal Trade Commission's Competition Bureau.

DEFENSE DEMISE. As a result, the Pentagon is plunging into antitrust policy. In an initiative begun under outgoing Secretary Les Aspin and likely to be continued by his eventual successor, Under Secretary John M. Deutch has tapped former FTC Commissioner Robert Pitofsky to head a task force studying the Defense role. The panel, which includes representatives of the FTC and the Justice Dept., is to issue recommendations in late February.

A 50% drop in the military procurement budget since 1987 is driving the industry to consolidate. Booz Allen & Hamilton Inc. predicts that 80 of the top 100 defense contractors could be gone by the year 2000. Antitrust enforcers fret that a wave of megadeals, such as the purchase of General Electric Co.'s defense electronics business by Martin Marietta Corp., could eventually destroy competition within the industry.

Contractors say trustbusters just don't get it. The industry is still upset by the FTC's 1992 action blocking a merger be-

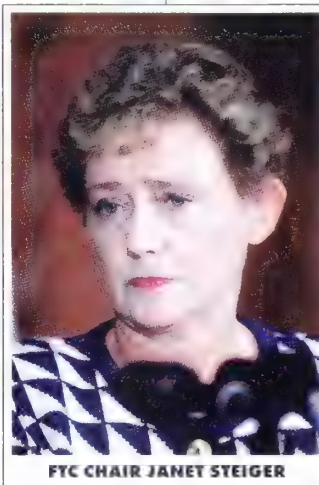
tween Alliant and Olin Corp.—the nation's only makers of 120-mm tank ammunition. While industry experts felt a shrinking market would not leave enough business for two producers, the FTC persuaded a judge that a merger would raise ammo prices by \$115 million during the five-year contract.

MORE SENSITIVITY. Weapons makers, outraged by that decision, want to make sure that such aggressive enforcers as FTC Chair Janet D. Steiger and Assistant Attorney General Anne K. Bingaman develop some sensitivity. For instance, they argue that national security needs should leave room for mergers that ordinarily wouldn't pass muster with Justice or the FTC. They also contend that the Defense Dept. is a tough enough customer to keep prices in check without the trustbusters' help.

The antitrusters so far are unmoved by the arguments for a national security exemption. "Our guidelines are sufficiently flexible that we really don't have any special cases," says FTC Commissioner Dennis A. Yao. Over the past decade, the government has gone to court to block just 4 of 400 defense mergers—and won every case. Besides, government lawyers say, they already consider such issues as overhead cost savings and the need to preserve critical research and development teams in reviewing deals.

The task force will probably recommend only minor changes in procedures, such as clearer standards of analysis for defense deals and better coordination between Defense, the FTC, and Justice. But antitrusters worry that the Pentagon's newfound interest in their business could make life difficult. "There is no question that Defense can be an 800-pound gorilla in any litigation," says Robert Litan, deputy antitrust chief at Justice. When it comes to military contractors, Clinton's high-flying trustbusters could get their wings clipped.

By Catherine Yang



FTC CHAIR JANET STEIGER

CAPITAL WRAPUP

DIPLOMACY

In 1992, candidate Bill Clinton took every opportunity to assail George Bush for "coddling tyrants" in his cozy relations with China's leaders. Now, Clinton is eating his words. In a fundamental shift in policy, the Administration is moving away from human rights as the focus of U.S.-China policy. Instead, Washington is coming around to Bush's view that economic and strategic ties to China are too vital to be held hostage to Beijing's human rights record. "It's been an uncomfortable education for the President," says one senior Administration official.

For now, Clinton has to keep hu-

man rights on the front burner. Under pressure from Congress, he signed an order requiring China to make significant progress on such issues as freeing political prisoners and ending forced abortions to gain an extension of most-favored-nation trade status this June. But if Beijing makes enough progress to win MFN, as U.S. officials say is increasingly likely, the Administration will seek ways to separate human rights and trade issues in the future.

Such top officials as National Economic Council Director Robert E. Rubin, Commerce Secretary Ronald H. Brown, and U.S. Trade Representative Mickey Kantor want trade to come first. "China's moving in the right

direction on human rights, and U.S. investors won't jump into the market so long as MFN comes up for renewal every year," says one Administration advocate. The State Dept. is leaning toward a multiyear renewal of MFN.

With China becoming both an economic and military superpower, Clinton now knows that it's imperative for Washington to maintain friendly relations. But he still must persuade Congress to ease its fixation on human rights. With help from Beijing, however, Clinton may be able to bring U.S.-Chinese relations back to where they were at the start of the Administration—the Bush Administration, that is.

By Owen Ullmann

CHINA

BIRTH OF A NEW ECONOMY



Zhu Rongji, architect
of China's bold reforms

Vice-Premier Zhu Rongji is an exacting taskmaster. The intense, technocratic boss of all China's economic affairs has scant patience for error. During an interview in Beijing's Purple Light Pavilion, an ornate meeting hall built during the days of the emperors, this drafter of China's boldest reform package in a decade reels off one economic statistic after another without notes. He also repeatedly interrupts his interpreter to make sure she has given his exact meaning—and nothing less. “Banking,” he says, when she mistranslates a word as “financial.” Meanwhile, nine aides sit nearby, scribbling notes.

Zhu's leadership is now being put to the supreme test. Appointed governor of the nation's central bank last summer, he has been showered with admiration from the international business community for his vision of China's economic future. But at home, his abrasive style has left enemies—and more than a few who hope he'll fail. Now, with his job on the line, Zhu is pushing ahead with a revolutionary agenda to forge a modern, market-oriented economy. In an exclusive, two-hour talk with *BUSINESS WEEK*, Zhu laid out in detail his three-pronged plan to federalize the nation's unwieldy banking and tax systems and also overhaul state industry. The blueprint, he says, is “comprehensive, extensive, in-depth, and unprecedented.” It is also fraught with peril.

OLD WARLORDS. For his plan to succeed, Zhu has to find a way to harness China's economy, which in 1993 grew at a dizzying pace of 13%—for the second straight year. Inflation is on the rise, with prices in the largest cities climbing more than 20% annually. Subsidies to money-losing state enterprises, relics of the Stalinist economy, are bleeding the center dry. And decentralization has created a crisis between Beijing and the provinces. In

the midst of an economic boom, Beijing's revenues are falling, as provincial leaders grab an ever expanding share of taxes for themselves and help local companies evade Beijing's collectors.

As he launches his plan this month, the 66-year-old Zhu must stare down history. China has almost always functioned as a sprawling empire with strong regional warlords. The new accommodation between the provinces and the central government will give Beijing more power over the economy.

While Zhu struggles at home, pressures are mounting overseas as relations with the U.S. heat up over human rights and trade. In a draft of its annual human-rights report, the State

He wants to set commercial banks free, spin off state enterprises to professional management, and create a U.S.-style tax system. The goal is to have a market economy running smoothly by 1999. "It's an enormously daunting task," says Richard Mounce, vice-president of Chase Manhattan Bank in Hong Kong.

NO WAY BACK. As far-reaching as his economic reforms are, Zhu has steered clear of political reform. While chaos has crippled Russia, Chinese leaders say they have allowed economic liberalization but maintained strong political control. Over the past 15 years, China has encouraged entrepreneurial growth and foreign investment while gradually freeing prices and creating a strong curren-

to take care of me. The managers sit in their Mercedes-Benzes, and we are hardly getting a thing."

Communist Party hacks are worried about losing their clout, too. Some local leaders see their power threatened by Zhu's plans to rein in the provinces. So politically, Zhu could be on shaky ground. Lacking ties with the military and the security apparatus, he doesn't have a strong power base to fall back on during hard times. "He is the most vulnerable of the central leaders," says a Western diplomat in Beijing.

And Zhu knows firsthand how uncertain life can be. Born in 1928 in Hunan province, he was educated as an engineer, but during the Cultural Revolu-

ZHU RONGJI'S AGENDA FOR REBUILDING THE CHINESE ECONOMY

1 OVERHAUL THE INDUSTRIAL BASE

GOAL: New laws will transform China's "iron rice bowl" enterprises, which control about half of the economy, into joint-stock companies. Professional managers will take over, throwing the party out of the boardroom.

HURDLE: Strikes blow at party hacks, but Zhu is betting that Communist cadres will cooperate as they receive company shares.

2 CREATE A WESTERN-STYLE BANKING SYSTEM

GOAL: Modernize a backward financial system. Autonomous central bank will focus on controlling money supply. Restructured commercial banks will make loans to business based on creditworthiness, not political connections.

HURDLE: Banks still saddled with big loans to money-losers in the short term.

3 RESHAPE RELATIONS WITH PROVINCES

GOAL: Central government will replenish its coffers by creating new tax code. That will force wealthy coastal provinces to share their riches. Beijing will gain more control over the national economy.

HURDLE: Local officials have other sources of revenue that go unreported to Beijing. New taxes may also add to inflation.

Dept. blasted China for lack of progress, endangering renewal of its most-favored-nation trade (MFN) status. Making matters worse, while Beijing had an overall deficit of \$12 billion in 1993, its surplus with the U.S. is \$23 billion and growing. That puts it second to Japan in the size of its imbalance with Washington.

High-ranking officials on both sides of the Pacific are scrambling to stem the damage. Treasury Secretary Lloyd M. Bentsen met with senior Chinese officials on Jan. 19, while Secretary of State Warren M. Christopher plans to talk with Chinese Foreign Minister Qian Qichen in Paris on Jan. 24. Beijing's leaders are suddenly taking a more conciliatory tone. Instead of insisting that human rights is none of Washington's business, Zhu says that "we are certain to see more progress." If China takes steps needed this year, the Clinton Administration may separate human rights and trade in the future (page 41).

Zhu's task is far trickier than Deng Xiaoping's 15 years ago. Deng set the process in motion by freeing up peasants and entrepreneurs and by welcoming foreign investment. Zhu is going a step further by reforming key institutions.

cy. With the resulting growth, Beijing's technocrats are able to tackle the wrenching issues of remaking companies and financial institutions and of consolidating control over a vast empire.

What if the challenge proves too great? China would remain stuck in boom-bust cycles that would grow even more dangerous over time. That would hurt the foreign investors, both Western and Asian, who have been pouring in billions. But perhaps the biggest losers would be the Communists. With Marxism discredited, economic growth may be the only way for the party to preserve its power. "The leadership knows there is no way for it to go back," says a prominent Chinese economist. "If it does, it collapses."

Even so, many of Zhu's proposals will test the party's control, as workers and peasants are exposed to the harsh realities of the market. Although many laid-off workers are finding jobs in the thriving private sector, some grumble about losing their "iron rice bowls"—lifetime employment. One 38-year-old mother, let go after 12 years at Shanghai's state-run China Record Factory, fumes: "I thought the factory had an obligation

tion of the 1960s, he was forced to work as a peasant. After his rehabilitation in the late 1970s, he climbed through the ranks and in 1989 became mayor of Shanghai, where he was a favorite of Western executives. Deng handpicked Zhu for service in Beijing in 1991.

Since then, he has worked on his blueprint for radical reform. Zhu's ambitious program got off to a rocky start in late December. Farmers hoarded grain in anticipation of higher prices, causing panic buying. Other Chinese grew edgy when the government announced on Dec. 29 its intention to unify China's dual exchange rates by Jan. 1. That prompted people holding currency traded at the official rate to snap up gold and jewelry, for fear of seeing their money devalued 50% overnight. Others bought big-ticket items when they heard that China would slap on a new value-added tax.

Undaunted, Zhu is pushing ahead. His plan involves three structural changes: **CORPORATE REFORM:** China's state enterprises still account for about half of the economy and employ the vast majority of urban workers. Nearly two-thirds of such businesses don't make

money—and 37% are big losers. The state spends billions each year bailing them out. But the government can't cut loose millions of workers who depend on their jobs not only for work but also for health care, education, and pensions.

A new corporate law, to be effective on July 1, is the first legislation aimed at whipping these industries into shape. The goal: to get the party out of business management. These dinosaurs will be merged, sold, or turned into joint-stock companies, with shareholders selecting the board of directors. "The idea is to make them responsible for their

own management and operations," says Wu Jie, one of Zhu's advisers.

For a pilot program this year, the state will choose 100 companies. To make them competitive, the government will change factory leaders, redo organizational structure, and provide new technology and equipment. The government will spend \$5.5 billion on renovating rust-belt plants next year. "If, despite all these measures, they still operate in the red, then we'll have to enforce the bankruptcy law adopted in 1989," Wu says.

With an eye to the day when big

companies fail, the government is experimenting with a new safety net. This year, there will be various experiments to test unemployment insurance, pensions, and workers' compensation.

On top of that, the technocrats are steadily reducing the number of ministries in Beijing. Powerful corporations run by experienced managers rather than bureaucrats will take their place. And the pace of privatization will increase. Fifteen of the strongest state enterprises will follow the example of the "Gang of Nine," companies that floated shares on the Hong Kong exchange last year. Among the new listings: two major airlines, a railroad company, and several power plants.

TAX REFORM: Perhaps Zhu's toughest battle was to win the provinces' approval for his new revenue plan. Aides say he traveled throughout the country to underscore the need for the richer provinces to share the wealth. Last year, the financial revenues of local governments jumped 20%, while the central government suffered a deficit.

China is establishing two separate tax bureaus in localities across the country. Existing bureaus in the provinces will be converted into central government ones, while provincial authorities will open new bureaus of their own. Before the year 2000, the state hopes to be pulling in 58% to 60% of all revenues, as opposed to the 38% it gets now.

Actually collecting the taxes, though, may be the real challenge. Local leaders have found many ways of keeping money out of Beijing's hands. In one popular scheme, provincial leaders allow local companies to underreport income, thereby sheltering them from central government tax rolls. Later, the companies make "contributions" to local governments. "When the provinces need the money, they call it in," says Fan Gang, an economist at the Chinese Academy of Social Sciences in Beijing. "But it never shows up on the books."

But many experts remain optimistic. "We believe [reform] will work, though it won't be effective from Day One," says Meocre Li, managing partner of Arthur Andersen & Co. in Hong Kong.

Other problems loom. This year, Beijing will meet the provinces head-on over the wild growth in infrastructure projects. With good reason: There is massive overlapping. Almost every coastal region wants to build a major port. "It's a little bit out of control," says Gao Lianbin, director of the northeastern city of Dalian's port authority.

BANKING REFORM: The People's Bank of China is a relief: It still doles out loans for projects whenever the government



THE ROAD TO MARKET: A TALK WITH ZHU RONGJI

Sipping coconut milk, a relaxed Vice-Premier Zhu Rongji fielded questions with ease at Zhongnanhai, a government compound in Beijing. He spoke for two hours with BUSINESS WEEK Managing Editor Mark Morrison, Hong Kong Bureau Chief Joyce Barnathan, and Beijing Correspondent Lynne Curry.

Q What kind of economy are you trying to build?

A What we want to achieve through reform is to adopt the operating mechanism of a market economy, which is the same as you have in your economy. The only difference is that your economic system is based on private ownership, while our market economy will still be based on public ownership.

Q How are you going about trying to create this new model?

A Mainly, we will conduct reform in three areas: fiscal policy, the banking system, and state-owned enterprises. Fiscal reform will be aimed at adjusting the relationships between central and local governments. Now, we have a new system under which revenue tax is shared between the central and local governments—similar to the system you have between federal and local government. The aim of banking reform is to establish an independent financial system. Lastly, we will change the relationship between the state and its enterprises.

Q Won't you meet strong resistance?

A We have had a long process of preparation. A consensus was built between central and local governments, and between the government on the one hand and enterprises on the other. So some agreement was reached.

We are glad to see that the general situation in the country and in all industries has been stable. No big problems have cropped up, and this has greatly boosted our confidence. These reforms also must have the Chinese people's understanding, support, and acceptance. That is by no means easy.

Q In changing the tax system, haven't you and the provinces had a pretty fierce struggle?

A It's true that last year we did a lot of work with local and provincial governments to convince them. It is not possible to take money out of the pockets of another person without that person's resisting. But the measures we introduced are not so drastic. They are actually quite moderate.

Q Right now, your economy is growing by 13% a year. What is your target?

A My target is 9% to 10% for this year. It is not possible for us to achieve 7% because that would create

hope that trade relations between China and the U.S. will continue to develop and that there will be no large fluctuations.

Q Are you concerned about U.S.-Chinese relations?

A Ever since the Seattle meeting took place between President Jiang Zemin and President Clinton, a new stage in friendly relations between the two countries has been ushered in. High-level exchanges between the two sides have been on the increase. Therefore, I am optimistic about the future of such relations.

However, we hope MFN will not be linked with human rights. And we are



“The only difference is that your economic system is based on private ownership, while our market economy will be based on public ownership”

a major disruption to the economy. In addition, that kind of fluctuation would lead to social instability.

Q Are you comfortable with the level of foreign investment in China?

A In 1992, we saw an unprecedented level of direct foreign investment in China—some \$11 billion worth. It is a good phenomenon.

Q Would a U.S. decision to revoke most-favored-nation (MFN) trading status cripple your economy?

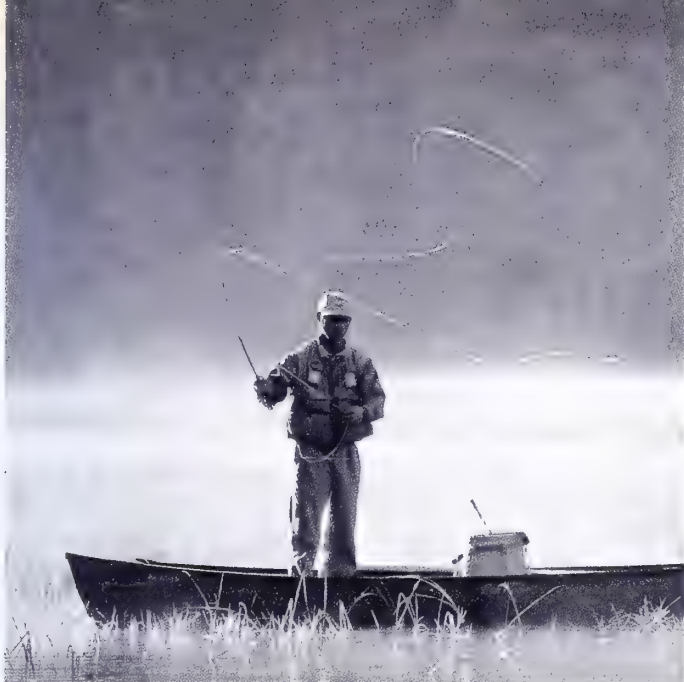
A It is not correct to think that it would be a terrible thing for China if MFN were withdrawn. I think that it's the American public—the general American consumer—who would suffer the most. Therefore, I sincerely

sure the human-rights situation in China will continue to improve, and we are certain to see more progress in this regard.

Q On a personal note, can you tell us how you manage such a vast portfolio of economic policies?

A Within the State Council, I am the chief assistant to Premier Li Peng. And within the party, I am a member of the Standing Committee of the Politburo responsible for economic work. But when it comes to making decisions, all issues have to be subjected to the collective leadership of the Communist Party's Central Committee and the State Council. No decision has been my personal one. That's why I'm not that fond of being described as an “economic czar.” My title is Vice-Premier.

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sees fit. In early 1993, banks went on a lending spree, providing billions in cheap funds to property speculators and causing a liquidity crisis. Last summer, Zhu stepped in, forcing the banks to call all loans by the end of the year. The picture for this year is healthier: Banks must increase their reserves from 5% last year to 13% this year.

SQUEEZED. The breakthrough will come this spring. That's when China's rubber-stamp parliament, the National People's Congress, is due to approve wide-ranging laws regulating the central bank, commercial banks, and money markets. The goal of the reform is to create a central bank that can control money supply. The country's major specialized banks will be converted into true commercial banks that lend money based on risk assessments. Three new banks will handle loans for big government projects. "These laws will pave the way to create a basic legal framework for the future banking system," says People's Bank Deputy Governor Chen Yuan.

But the transition will be slow. To prevent state enterprises from going bankrupt, commercial banks will be forced to continue extending them credit. But small business borrowers aren't so fortunate. They get harshly squeezed by the banks. So to

★ STOCKING UP
At the Shanghai securities exchange, would-be buyers spill out onto the street

help them, the government wants to let mutual funds and financial institutions lend to this most dynamic sector.

For Chinese and foreigners alike, the changes are sometimes baffling. Zhu insists December's panic buying was caused by poor communications. As a result, he intends to launch a TV and radio blitz before further reforms. Foreign investors are scrambling to keep up. After returning from a 10-day trip to the U.S. over Christmas, Dudley Schleier, general manager of Pfizer China, a pharmaceutical joint venture in Dalian, was suddenly confronted by a currency devaluation, new VAT, new customs duties, and increased tax rates for expatriates. "The biggest challenge I face is change," he says.

★ SACKING OUT
At Guangzhou Railroad Station, a dormitory for newly arrived job-seekers



The months ahead will test whether wide-scale reform can be managed by any technocrat—even one as savvy as Zhu. As long as he enjoys the support of the ailing Deng, his position is relatively secure. And after Deng's death, Zhu and his reformers may continue to have party backing. Even conservative leaders such as Premier Li Peng know that controlling industry the Stalinist way won't provide prosperity. Moving toward Zhu's goal of a modern economy will. So Beijing's formula is to keep a firm grip on politics, but ease up on economics.

Of course, most Chinese citizens had no say in these policies. Despite the new jobs being created in the private sector, workers and peasants may resist giving up the safety and benefits of the old system. Chinese who do prosper may not be satisfied without democratic reforms.

Zhu's gamble is that economic progress will salve the tensions on the surface of Chinese society. Many hardships lie ahead. But after more than four decades of Communist rule, Zhu's vision offers China's 1.2 billion people a fighting chance for more prosperity than they have ever seen.

By Joyce Barnathan in Beijing, with Pete Engardio in Hong Kong, Lynne Curry in Beijing, and Bruce Einhorn in New York

RUSSIA: FROM SHOCK THERAPY TO SHOCK ABSORBERS

When Boris Yeltsin hosted Bill Clinton in the Kremlin's gilded St. George's Hall on Jan. 13, one member of the Russian President's party clearly stood out. That was Viktor S. Chernomyrdin, the Prime Minister. Chernomyrdin rarely left Yeltsin's side during the summit talks, and he was so aggressive in pushing for pet projects, such as a U.S.-Russian space station, that Clinton teased: "Maybe Mr. Chernomyrdin should register as a lobbyist for Congress."

It's a good thing Clinton established an easy rapport with Chernomyrdin. The stocky, bushy-browed former state industrialist is emerging as the key Russian policymaker after Yeltsin. He is likely to sharply change the course of reform.

Chernomyrdin's ascendancy became clear after the summit, when Yegor T. Gaidar, the architect of Yeltsin's reforms, resigned as deputy premier, and Boris S. Federov, the tight-

money finance minister, threatened to follow—though he now seems likely to stay. Both officials are unhappy with the probable scrapping of the tight monetary policies they favor. The political uncertainty whipped up new inflation fears, sending the ruble plummeting to a record 1,650 to the dollar. A huge scramble to change rubles to dollars forced some banks to close.

PRAGMATIC ERA. While this reaction may give him pause, Chernomyrdin still seems likely to eschew inflation fighting. He will instead focus his efforts on halting the crash that has sent real gross domestic product plunging at a 12% annual rate. Responding to a discontented electorate, he will pump money into agriculture, energy, technology, and other industries to ease the pain of shifting to a market economy. He will continue the privatization and modernization of industry. But at the same time, Chernomyrdin will be under pressure to preserve jobs and avoid destroying the massive state combines that remain the backbone of the economy. "The departure of Gaidar signals the end of the romantic period, when a group of young academics tried to stage a revolution without having sufficient political support or a stable social basis," wrote economics analyst Mikhail Berger recently in the newspaper *zvestiya*.

December's election upset make the changes inevitable. Russia's Choice, Gaidar and Federov's new political party, was trounced by ultranationalists and Communists, who are now blaming reformers for everything from factory closings to rising crime. "It's natural that Gaidar resigned," says Alexei Litrofanov, a State Duma deputy from the ultranationalist Liberal Democratic Party. "In all countries, the people who lose the elections leave the government."

The 55-year old Chernomyrdin, who stayed out of the elections, is a breed apart from the academic Gaidar. Chernomyrdin is a pragmatic state-sector industrialist who rose through the ranks of the natural gas ministry to become minister in 1989 and then president of Gazprom, the monopoly that pumps natural gas to Western Europe. Unlike other parts of Russia's energy sector, Gazprom is reputed to be well-managed—although reserves are so massive it's hard to fail.

Chernomyrdin's rise represents the triumph of state-sector industrialists. Since coming on board last year, he has often deftly balanced the warring reform and antireform elements in Yeltsin's government. At the same time, he argued strongly for government bailouts of industries, and he is among those favoring a tougher foreign policy that uses economic incentives to rein in former Soviet republics such as Belarus and

Ukraine.

To the dismay of reformers, the Prime Minister insists on retaining his ally, Viktor Geraschenko, as Central Bank chief. Geraschenko is widely blamed for fueling inflation by doling out billions of rubles in credits to failing industries. Federov badly wants the bank job.

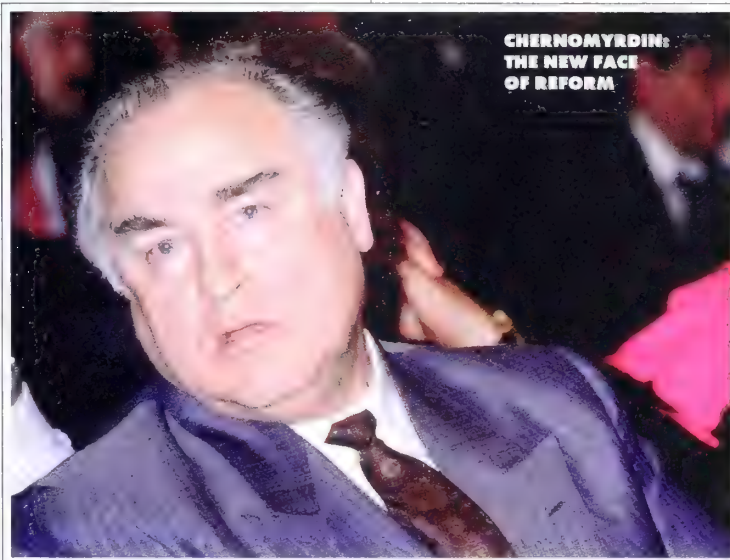
If Chernomyrdin gets his way, the bank will crank out even more state credit to build the new social safety net that voters want. But he will also promote Russia's massive privatization program. In part, that's because the increasingly powerful public-

sector managers profit tremendously from the sell-offs, often gaining controlling stakes or at least veto power in their companies. Some set up profitable businesses on the side, such as banks or equipment suppliers. Unlike the radical monetarists, Yeltsin's privatization chief, Anatoly B. Chubais, is likely to keep his job.

"VERY COMFORTABLE." The question is how all this will play in the West and before the International Monetary Fund. Western executives seem generally impressed with Chernomyrdin, who is well known to them. On a U.S. visit last September, he stumped hard for investment in Russia. "Most American businessmen feel very comfortable with him," says Eugene K. Lawson, president of the U.S.-Russia Business Council. "He's pro-Western, and he's pragmatic."

The IMF is more skeptical. The fund is now concerned that Russia will not be able to meet guidelines for the release of \$28 billion in funds. "We have rules here," says an IMF official. But Bill Clinton remains optimistic. Both he and Vice-President Al Gore, who has developed a friendly relationship with Chernomyrdin, feel he is someone they can work with.

By Peter Galuszka and Susan B. Garland in Moscow



**CHERNOMYRDIN:
THE NEW FACE
OF REFORM**

WHITE, MALE, AND WORRIED

Last April, Doug Tennant lost his job as a long-term contract employee for Pacific Gas & Electric Co. in Tracy, Calif. He says he was the first one in his three-person unit to be laid off. He claims the others—a black woman and a man of Indian descent—were kept on even though he was more qualified. Tennant, who is white, blames PG&E's push for a more diverse workplace. "I feel like I'm losing out," he says. PG&E says his race and sex had nothing to do with his departure.

Marilyn Moats Kennedy, a Chicago-based career counselor, recently got a plaintive letter from a white male who wanted a job hauling baggage for United Airlines Co. It seemed that all the candidates who were having any luck were women and minorities. "How am I going to get on with the airlines?" the man wrote. "Wrong pigment, wrong plumbing."

He hasn't selected any colleges yet, but Curt Harms is concerned about the impact of diversity on his chances for acceptance. "I'm worried,"

says Harms, a 15-year-old sophomore from Lake Bluff, Ill., who is white. "If there's a candidate who has grades and credentials exactly the same as mine, these days it's more likely they'll take that person over me, if the person is a minority or a woman. There's nothing I can do."

Peek inside any corporate boardroom, or take a look at the senior managers of most top corporations, and it's hard to see what Harms, Tennant, and others like them are complaining about: It's still a white man's world.

But in a growing minority of companies—especially those aggressively pushing diversity programs—some white males are coming to a different conclusion. They're feeling frustrated, resentful, and most of all, afraid. There's a sense that, be it on the job or at home, the rules are changing faster than they can keep up. "Race and gender have become factors for white men, much the way they have been for other groups," says Thomas Kochman, a professor at the University of Illinois-Chicago who consults with companies

**As companies
hire and
promote more
women and
minorities, they
feel a backlash
from some
white males**





on white male issues. "The worm is turning, and they don't like it."

The phenomenon Kochman and others are talking about is far from universal in Corporate America. In fact, most white males don't feel particularly threatened or haven't noticed such changes where they work. But then, the impact of diversity programs, even in the companies that have them, is still limited. "Sadly, we find a lot of these diversity programs hang out there by themselves and don't loop back into a coherent management development program," says Jeffrey A. Sonnenfeld, director of the Center for Leadership & Career Studies at Emory University. "The programs often are window-dressing."

OPEN SEASON. But in such companies as AT&T, DuPont, and Motorola, where diversity is becoming more than just a buzzword, the emotional landscape for white males is changing. There, white men must compete against people they may not have taken all that seriously as rivals—mainly women, blacks, Hispanics, and Asians. White males also say that the diversity programs often make them feel threatened or attacked. "In the diversity group I was in, there were some understandable reprisals against white males and, implicitly, the company," says John L. Mason, vice-president for recruiting and equal employment at Monsanto Co. The reprisals "discounted all the good things white males have done."

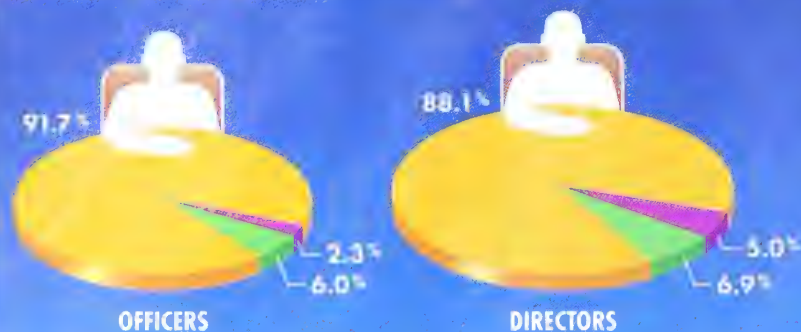
Even in companies where diversity programs are new or haven't made much impact, white males are feeling pressure. Often for the first time in their lives, they're worrying about their future opportunities because of widespread layoffs and corporate restructurings. Outside the corporation, white men are feeling threatened because of racial and gender tensions that have been intensifying in recent years. "'White male' is what I call the newest swear word in America," says Harris Sussman, president of Workways, a strategic consulting firm in Cambridge, Mass. "We all know that's not a compliment."

No matter what company they're in, white males must face a sobering new reality: With a more diverse population entering the work force, white men are slowly becoming a minority. From 1983 to 1993, the percentage of white, male professionals and managers in the work force dropped from 55% to 47%, while the same group of white women jumped from 37% to 42%. The diversification of the workplace will only pick up. Through the year 2005, the Labor Dept. estimates that half of all labor force entrants will be women, and more than one-third will be Hispanics, African Americans, and those of other races.

All this is driving what some diversity

WHITE MALES STILL RUN CORPORATE AMERICA...

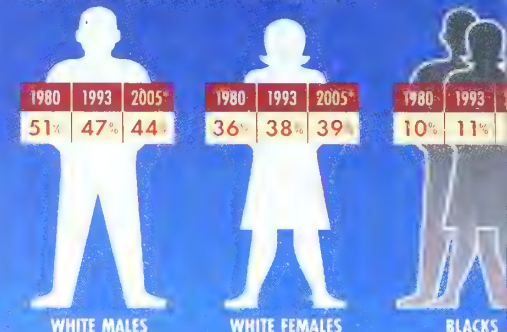
WHITE MALES WOMEN MINORITIES*



*BLACK, HISPANIC, ASIAN, AMERICAN INDIAN, OTHERS

...BUT AS THE WORK FORCE BECOMES...

SHARE OF TOTAL LABOR FORCE (16 YEARS AND OLDER)



*PROJECTED

experts and executives call a white, male backlash. So far, it has occurred mostly in companies experiencing the greatest flux, where some men blame their stalled careers on racial or gender differences. "When everybody is working and happy, diversity is just talk over the water cooler," says one laid-off, white, male executive who attributes his 18-month job hunt to employers who "earmark" jobs for female and minority candidates. "But when it impacts you directly, you become kind of angry."

QUANDARY. At the heart of the issue for many white males is the question of merit—that in the rush for a more diverse workplace, they will lose out to less qualified workers. Most white men claim they have no problem with promoting or hiring women and minorities if they are the best people for the job. It's another story when two candidates are of equal merit. In that case, if the company picks a woman or minority, some white men are quick to cry reverse discrimination—even though the law lets companies take race into account in employment decisions to remedy past discrimination.

The shifting dynamics of the work force have placed managers, many of whom are white males themselves, in a moral quandary. In their efforts to make their companies more diverse, they are certain to hire or promote women and minorities over other white males. That is sure to lead to anger from those who are passed over. In the extreme, productivity could suffer as white males flee to more old-line competitors. Yet if these managers fail to embrace di-

versity, they not only perpetuate past injustices but risk leaving their companies less globally competitive.

Many white, male managers say that those pressures become even harder to bear when they, rather than senior executives, are blamed for a litany of past wrongs committed by white men. "I'm certainly not part of the power structure," says James Gault, a systems engineer with American Telephone & Telegraph Co. in New Jersey. "But compared to blacks and women, I am."

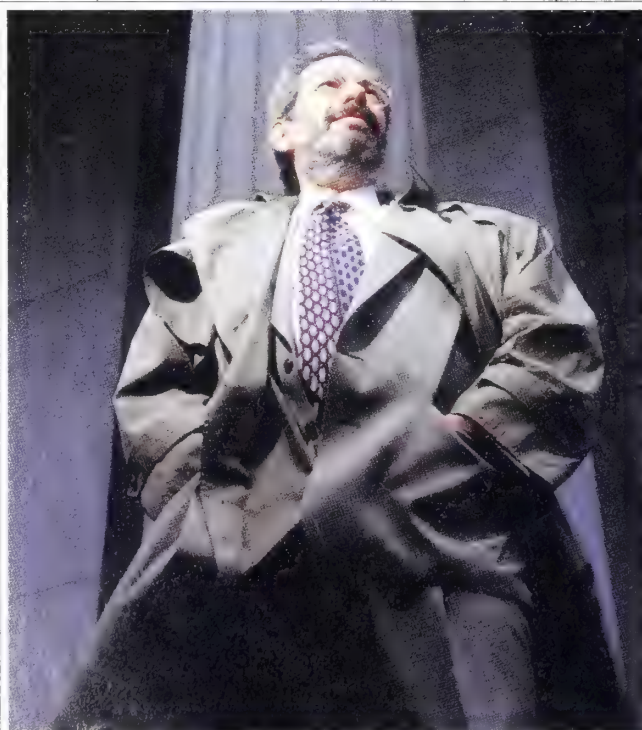
Complicating such issues is the split between what many white men say they

believe and what they actually feel: They recognize intellectually that they're still calling the shots and getting most of the promotions. But that does little to assuage fears that the pendulum will swing too far. "White males are like the firstborn in the family, the ones who have had the best love of both parents and never quite forgave the second child for being born," says Kochman, the University of Illinois professor. "We're dealing here with a sense of entitlements."

For companies committed to a corporate culture that embraces groups besides white males, all this raises two dilemmas: First, how to ensure a diverse work force without antagonizing either white males, whose support is critical for change, or women and minorities, who may resent efforts to win over white males; and second, how to reverse historical discrimination without creating new forms of it (page 54).

The experience at Rochester Telephone Corp. shows how tough those tasks can be. Until recently, white males criticized the company's diversity efforts as affirmative action under a different name—something they say doesn't affect them. The predominately white unions refused to support the initiative. "It was very divisive," says Robert Flavin, president of Local 11709 of the Communications Workers of America. "The minorities had an open door to the president."

Now, Michael O. Thomas, who is black, is trying to change all that. Hired last summer as Rochester's corporate director of staffing and diversity, Thomas expanded the definition of diversity to cover job sharing, career planning, and



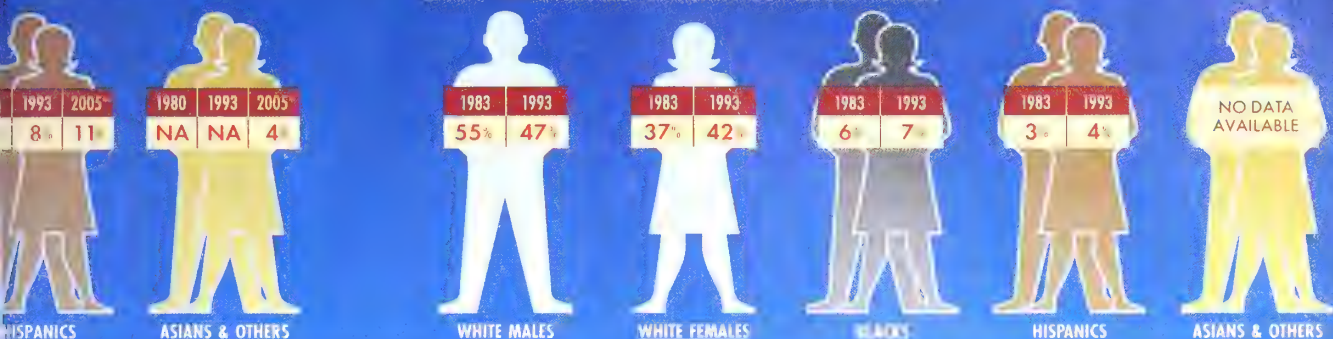
"'White male' is what I call the newest swear word in America."

HARRIS SUSSMAN Strategic consultant, Workways

RE DIVERSE...

...WOMEN AND MINORITIES ARE SLOWLY GAINING

SHARE OF MANAGERIAL AND PROFESSIONAL WORKERS (TOTAL EMPLOYED)



NA: MORE THAN 100% BECAUSE HISPANICS ARE COUNTED IN OTHER SEGMENTS OF THE POPULATION

DATA: U.S. TRUST CORP., BUREAU OF LABOR STATISTICS

other employee concerns as well as race and gender. To oversee those efforts, he and members of an internal Diversity Council, already comprising a cross section of the company, hired a diversity manager—who happened to be a white female—and eliminated the minority-run diversity department. He also refocused the council's mission to make it more inclusive and help set an agenda. Thomas says his efforts have drawn mixed reactions from minorities, some of whom worry he's ignoring their problems. Thomas is determined to prove them wrong. His approach is already winning over labor. "The old program didn't have anything to do with our members. Now it does," says Flavin.

TOXICITY CHARGES. While Rochester's diversity program isn't focusing on white males, one of the most aggressive employers on the diversity front are realizing that winning over white male employees requires special efforts—and is crucial to their programs' success. AT&T and Motorola Inc. are hiring consultants to lead seminars that help white males handle anxieties over their changing status. CoreStates Financial Corp. is forming a white men's support group similar to those in place for people of color as well as gays, lesbians, and bisexuals. For all male employees, DuPont Co. is creating a "Men's Forum." White males are feeling left out," says Bernard Scales, DuPont's manager of diversity, who is black. "They are questioning from the sidelines: What is going on? What is the company doing? What is it that women and people of color are trying to tell them?"

Managers who ignore such issues risk inflaming dissension and hurting morale and productivity. At some companies, white middle managers are filing internal complaints about unfair treatment. At NutraSweet Co., CEO Robert E. Flynn says evidence of white, male resistance surfaced in two similar incidents in recent months: White men picked white males for key positions—without posting the jobs for females, minorities, and others. Both jobs were reopened so that a broad range of candidates could apply. In one case, the initial candidate got the job, but some of the women and mi-

norities who were interviewed got promoted as well. The other case is pending. "There is a backlash," Flynn says. "There is some uneasiness about how aggressive we are in terms of diversity."

All too often, say many women and minorities, that uneasiness is expressed in the kind of behavior they have long had to put up with from white men. Women complain that some white, male managers try to undermine their credibility by doing such things as attributing their rise to tokenism. "When a female or minority or some combination is appointed to a particularly prestigious job, there's always the comment that the reason they were selected is that they were a woman or minority. That's one of the statements white males still aren't afraid to make in public," says Sara Kelsey, vice-president and assistant general counsel at Chemical Bank in New York. "I find those remarks very irritating because the men make it sound like that's the only reason."

ORGY OF BLAME. Rather than address such behavior, white males say too many diversity programs just encourage women and minorities to vent their anger. Ken E. Richardson, a white male, attended a week-long diversity program in the spring of 1992. An administrator with the Licking County (Ohio) Sheriff's office, he was one of five white males in a racially and sexually diverse group of 30. Having lived in a mixed neighborhood and abroad, Richardson says he has always respected cultural and racial differences. But in the training session, he says he was blamed "for everything from slavery to the glass ceil-



As the first one of his three-person team to be laid off, "I feel like I'm losing out."

DOUG TENNANT Former PG&E contract worker

ing." The instructors—a white female and two black males—seemed to “feed into the white-male-bashing,” he says. “I became bitter and remain so.”

Despite the risk that some programs will alienate men like Richardson, even such white, male bastions as the oil industry are pushing diversity initiatives. For Amoco CEO H. Laurance Fuller, managing diversity is a “business imperative.” He says women and minorities account for 40% of his work force, though they remain disproportionately in lower-ranked jobs; one of every six employees is not a U.S. citizen. Last fall, Fuller established a Diversity Advisory Council, which he chairs. Its mission is to create an environment in which Amoco Corp.’s increasingly diverse work force can reach its full potential.

The council is finalizing a long-term action plan, but some white, male middle managers are already worried. From time to time, they’ve questioned Fuller—himself white—about the consequences of diversity on their careers. “I reply that they have nothing to fear but more and better competition, which can only enhance Amoco’s prosperity and their own,” Fuller says.

For now, such reassurance is all the attention some white males at Amoco seem to want. Last summer, the company accepted a consultant’s suggestion to hold a focus group solely for white, male middle managers. It was intended to get them to express their concerns, says Jim Fair, Amoco’s director of media relations who attended the workshop. But some men didn’t think they needed the seminar. “Are you trying to get me to be upset?” Fair reports one manager asked the moderator. Others objected to being singled out. Fair said the men agreed that a more valuable experience would be sessions with different people together.

SURPRISING CONCLUSIONS. AT&T has embraced just such an approach, partly through a course called “White Males: The Label, the Dilemma.” Led by consultant Sussman, the course presents the future work force, then asks white men how they feel about being labeled a minority. The women and minorities in the class react to the white males’ views or challenge their conclusions. Beate Sykes, an AT&T diversity counselor, sought out the course in response to requests by white men “to do something for them.” The intensity of the one-day semi-

nar surprised some of the white men who attended. “I didn’t realize how much other white men felt attacked and how oblivious” they were to the benefits that their race and gender bestowed, says James Gault, the systems engineer. “They felt everything was equal now.” Other attendees say the seminar changed their self-image. “I never



thought of myself as a white male,” says Lee Arpin, a development manager. “In a lot of cases, we have privileges we don’t appreciate.”

Minorities left the seminar with insights into white men. David Clanton, a software designer who is black, says the class made him “more empathetic”

WHAT COMPANIES SHOULD DO

ADOPT a broad definition of diversity in the workplace covering all kinds of differences among employees, including race, gender, age, work, and family issues. Have senior management emphasize that diversity is an issue that affects everyone.

STRESS that managing diversity is more than just sensitivity or awareness training on race or gender issues that impact the work force but is a competitive weapon that helps the company capitalize on its talent pool and compete in the global marketplace.

SECURE a visible commitment from top executives to address employees directly and often about why diversity is important to the company’s bottom line and global competitiveness. Carefully monitor programs, and hold managers accountable for meeting diversity goals.

TAKING ADVERS

In the long history of the American workplace, the notion of diversity is a recent phenomenon. In 1987, the Hudson Institute Indianapolis think tank, released a study called *Workforce Work and Workers for the 21st Century*, which has set the agenda since. By the year 2000, the study projected, only 15% of the people entering the work force would be American-born white males, compared with 47% in 1987. The statistic struck fear in executive suites. Companies rushed to put together diversity courses or hire consultants to sensitize employees to racial and gender differences. But such programs often did more harm than good: They stereotyped groups or pitted one against the other. Or they blamed white males for all workplace inequities.

For some companies, diversity simply means affirmative action. For others such as IBM, Corning, and Honeywell, it’s part of a broader effort to change the corporate culture. Instead of just focusing on race or gender, they’re expanding the definition of diversity to cover everything from physical disabilities to concerns such as flex time and job-sharing. **DOLLARS AND CENTS.** More important, companies are linking diversity more closely to business objectives—and holding managers accountable for meeting them. The goal: to create a culture that enables all employees to contribute their full potential to the company’s success. Barbara Coull Williams, vice-president for human resources at Pacific Electric Co.: “The diversity of ideas is important, not that you have a certain ethnicity or sexual preference.” For PG&E, that means moving its focus beyond sensitivity training for employees on race and gender issues to better meeting the needs of a diversifying customer base. The way is to groom more qualified women and minorities through action planning. From senior executives down to low-level managers, PG&E identifies candidates with potential and makes sure they have the skills they need to compete. Then the company picks the qualified person for the position. A mentor program links pot

to white males because it showed how deeply felt their concerns were, just like other groups. He learned that white men don't like being lumped together or blamed for "something their fathers and grandfathers might have done." The class also helped him feel more comfortable with white male colleagues who seemed to be "more to my way of thinking than I would have expected."

Not all AT&T employees view the company's attention to white men favorably. On Nov. 5, Sussman was the key speaker at a mandatory, all-day conference sponsored by an affirmative action committee at an AT&T division in northern New Jersey. The occasion drew some complaints from women and minorities, who wanted to know why an affirmative action workshop should devote any time at all to white men. One minority employee was so incensed that the worker didn't attend.

Other companies with diversity programs are reaching out to white males. Corning Inc. has made a big diversity

push since 1987 and, among other things, now requires all employees to attend race and gender sensitivity training. The result, says Gail O. Baity, manager of strategic corporate education, is that "white males are asking questions like, 'The demographics show there will be fewer white males entering the work force. Will we be in the minority?' Or they're asking about parity. 'You have all these programs focused on women and color. What about me?'"

CORE REQUIREMENTS. In response, Corning has made a special effort to share employment statistics to correct a misperception of trends. "White males still predominate within the company and still hold the predominant positions of authority," Baity says. Corning also is trying to make the advancement process more objective by identifying core competencies for various jobs. When an employee gets a certain post, Corning can then point to the fulfillment of the core competencies as a valid reason why he or she deserved it. Ultimately, Corning expects managers to assemble a diverse talent pool for any opening, then select the best person.

That's an approach more companies are likely to take as women and minorities continue to make strides. Companies will also find that diversity

programs to encourage those trends are in their interest. The programs are in their customers' interests as well: They help to promote employees who, given their rich backgrounds, are not only qualified but more sensitive to the diverse cultures of the markets they serve. "There's not too many white faces in Indonesia," says NutraSweet's Flynn, who is pushing to raise the company's foreign revenues.

But companies must walk a fine line: If they pay only lip service to diversity, they risk losing or alienating women and minorities, an increasingly important sector of the talent pool. If they push diversity too hard without taking stock of the fears of their white, male employees, they risk losing white males or their backing. To be sure, the transition from a corporate culture dominated by white males to one that embraces all employees equally will not take place without a degree of tension. But if companies are to compete in the changing marketplace, and if they are to treat all employees with equal respect, diversity is essential. And so, too, is the proper training for all involved.

By Michele Galen in New York, with Ann Therese Palmer in Chicago and bureau reports

T OF DIVERSITY

achievers with higher-ups who share insights into the way PG&E

er companies with diversity initiatives are taking more of a s-and-cents approach. At NutraSweet, the diversity program is focused on "making things happen in the global marketplace and measuring well we're doing based on profits," says CEO Robert E. Flynn. The company is using the same approach to develop untapped U.S. markets. For example, it's creating a "diverse markets" initiative. One goal is to sell more of the company's Aspartame sugar substitute to Asians and Hispanics, whose incidence of diabetes is higher than that of the general population.

Companies are using the diversity of ideas as a competitive weapon, compare embracing a broad definition of diversity that includes white men. Part of their motivation is legal. Civil-rights laws cover white men as well as women and minorities, though companies can take race into account in employment decisions to remedy past discrimination. Honeywell Inc., Curtis White, vice-president for corporate diversity, has made a special effort to reach out to white males and gain their support. In 1992, Honeywell established a 20-member Diversity Council, made up of the chairs of key employee groups, such as the Honeywell Women's Council and the Black Employee Network. It also includes a white, male middle manager, who represents the Minneapolis-based Technical Operations Council. White says he chose the operations group for one reason: "It was a totally Caucasian council. I couldn't find a graceful way to encourage Caucasian males to form a group, so we had this opportunity to practice our inclusiveness concept." Whether White's maneuver will pay off is still unknown. But given the changing demographics, companies that support all kinds of groups are likely to be the first to prosper from a diverse talent pool.

By Michele Galen, with Ann Therese Palmer in Chicago

WHAT COMPANIES SHOULD AVOID

STEREOTYPING groups of employees such as white males to explain cultural or ethnic differences. Instead, stress respect for individual differences and characteristics that all employees have in common.

AGITATING employees with one-shot sensitivity workshops and seminars that stir up emotions by pitting different groups against each other. Favor ongoing training programs that seek not only to educate workers about ethnic, racial, and cultural differences but also seek to change the company's culture.

BLAMING white males or others for the company's problems or inequities in society. Instead, find trainers with experience in diversity who are not divisive in their approach, emphasize similarities among groups, and stress the connection between managing diversity and competitiveness.

FATHOMING WHITEWATER

The Clintons' involvement may prove to be not so sinister after all

Judging by the baying of vengeful Republicans around the country and armies of investigative reporters camped out in Little Rock, Bill and Hillary Clinton's controversial Whitewater Development Corp. real estate investment threatens to become a scandal capable of capsizing a Presidency. Now that the Clintons reluctantly have bowed to the public clamor and asked for a special counsel to probe the matter, some Washington insiders say it may be just a matter of time before the First Couple is implicated in wrongdoing.

The special counsel will have plenty to investigate. The complex assemblage of allegations, popularly dubbed "Whitewatergate," involves influence peddling, illegal campaign contributions, improper diversion of funds, and conflicts of interest. The web of business and political ties may have seemed routine in the incestuous small-town atmosphere of Little Rock, but it takes on a shadier cast when Washington turns a spotlight on it.

NO SURPRISES? Lending credence to these charges is the White House's suspicious behavior, such as the Clintons' stubborn reluctance to disclose Whitewater records and the removal of Whitewater documents from the office of Deputy White House Counsel Vincent Foster Jr. shortly after his suicide last July.

But considerable evidence, including government documents and statements from several of the key players, suggests that the Whitewater case could end with a whimper, not a bang. There is certainly a chance the special counsel could turn up damning new evidence, for many facets of Whitewater remain

murky. Even if that kind of evidence doesn't materialize, it's still quite possible that the Clintons will be found to have committed minor infractions or indiscretions.

But the odds that the Clintons will face formal charges appear slim. "The allegations have been blown up way, way out of proportion," says Thomas P. Vartanian, a former senior thrift regulator under several administrations. The Clin-

Four years ago, for instance, the feds took McDougal to court on fraud charges stemming from two sales of largely undeveloped real estate in south Little Rock to Madison insiders, including brothers of McDougal's wife Susan. According to the government, McDougal and Madison engaged in various sham transactions to inflate his pay, since McDougal received a bonus tied to sales from Madison's real-estate arm.

LESS THAN MEETS THE EYE?

Some key allegations against Bill and Hillary Clinton seem questionable

► Clinton's administration in Little Rock kept financially ailing Madison Guaranty open longer than it should have in return for favors from Madison owner **JAMES MCDUGAL**, a partner with the Clintons in

Whitewater Development. But a 1986 letter from state

securities regulator **BEVERLY BASSETT SCHAFFER** to the Federal Savings & Loan Insur-



SCHAFFER

ance Corp. shows Clinton officials wanted to close Madison more than a year before it was taken over in 1989.

► A loan to McDougal's wife, Susan, by his friend **DAVID HALE**, a Little Rock businessman, was improperly used to shore up Madison. But that charge

is based on accusations by Hale, whose credibility is clouded by his indictment on unrelated fraud charges.



MCDUGAL

tons have denied wrongdoing.

One major reason for skepticism is that the government has already looked into many of the dealings of Whitewatergate's central figure, James B. McDougal, the Clintons' partner in Whitewater and majority owner of Madison Guaranty Savings & Loan. Madison was taken over by the government in 1989 at a cost of \$50 million. Although McDougal and Madison have been investigated by five federal agencies, prosecutors have come up empty-handed.

The trouble for the government's case was that McDougal never cashed out any of the more than \$100,000 in bonuses he accrued from Madison's real-estate sales, some of it from these transactions. And McDougal's attorney, Sam T. Heuer, noted at trial that both buyers appeared to be serious investors because they later made moves to develop the properties, including personally paying for legal fees and site surveys.

That suggested to the jury that the deals weren't rigged to line McDougal's pockets—and that McDougal's unwar-

anted optimism about real estate coupled with a lax management style, rather than fraud, led to Madison's downfall. In my mind, I didn't think McDougal was greedy," recalls jury foreman Gene Tumbaugh. "I just think he lost control." McDougal was acquitted after just 10 hours of jury deliberation.

Challenges facing the special counsel range far beyond the record of McDougal's prosecutions. The credibility of several likely prosecution witnesses, including former Madison employees who admitted at McDougal's trial that they altered thrift documents, will be at issue. And the statute of limitations for civil cases will lapse in March. That will force the special counsel to seek criminal charges, which require a far tougher standard of proof.

Much of the special counsel's investigation is expected to focus on four major sets of allegations:

The Whitewater payoff. Critics contend that McDougal, whose thrift was regulated by the state of Arkansas and the federal government, gave the Clintons a financial boost in

"The project was crippled going in," says McDougal. "Toward the end, I just wanted to liquidate it"

a sweetheart deal for the Clintons because they received a 50% stake yet put up no money. But neither did McDougal. He says the Clintons were entitled to their share because they borrowed half of the initial \$203,000 investment—all of which was financed by adjustable-rate loans.

According to McDougal, the project was doomed almost from the outset. Shortly after the partners purchased 230 acres along the White River, interest rates shot up as high as 20%, sharply hiking the partners' interest costs. Problems with the survey cost \$20,000 to correct and helped stall the project for nearly a year. "The project was crippled going in," says

Clinton campaign that pegged the couple's loss at \$68,900. Whether the loss was \$9,000 or \$68,900, it's hard to call it a reward to the Clintons.

Some critics wonder why the Clintons never took a tax deduction for the loss if they in fact lost money on the deal. A senior White House aide says that's because the First Family would have been limited to a \$3,000 deduction each year for a passive loss—or about a \$900 tax savings. As incoming President, Clinton knew he would be audited, and the legal costs of documenting the loss could have exceeded the tax break.

Why did the Clintons stick with Whitewater? The aide says that by the time Clinton became governor again in 1983, Whitewater was already a lost cause. But if McDougal had bought the Clintons' stake, it would have looked as if someone who ran a state-regulated business was bailing the governor out. The Clintons felt it was better politically to stick with the investment rather than to take the flack. "They were stuck with a bad deal," the aide says.

McDougal didn't seem to get anything

out of the arrangement either. Republicans contend that in exchange for their interest in Whitewater, the Clintons helped keep the ailing Madison open during the mid-1980s, when it should have been closed.

That ignores what was going on at the time in the thrift industry. Buffeted by a real estate slump, the industry was imploding. The problems at Texas S&Ls supervised by the Dallas office of the Federal Home Loan Bank Board, which also oversees Little Rock institutions, were overwhelming. And the federal deposit insurance fund for thrifts didn't have the money to shut down Madison.

Moreover, there is evidence that Arkansas regulators didn't go easy on Madison. Beverly Bassett Schaffer, Clinton's securities commissioner, says reports show that Madison's financial condition actually improved in 1985. But when federal regulators realized the thrift had a negative net worth in 1986, they moved quickly to oust McDougal. After she saw a report from the thrift's new auditors in 1987, she asked the Federal Savings & Loan Insurance Corp. to shut Madison down. "They told me they would not do it," recalls Schaffer, who is now a private attorney based in Fayetteville,

HILLARY RODHAM CLINTON had a conflict of interest when she represented Madison as Commissioner

of the state, whom her husband appointed. Leading legal expert, Stephen Gillers

of New York University, says legal ethics rules don't prevent a lawyer from appearing before state agencies even if the



CLINTON

lawyer's spouse is governor.

► Hillary Clinton's former law partner, Associate Attorney General **WEBB HUBBELL**,

failed to disclose a potential conflict of interest when their firm represented the Federal Deposit Insurance Corp. in a suit against Madison's auditor. FDIC documents, however, indicate there was no interest conflict.

DATA: BUSINESS WEEK



HALE

return for lax oversight.

It's hard to make the case that Whitewater was such a payoff. McDougal and Clinton were long-time friends, having met in 1968 when the two were campaigning for then-Senator J. William Fulbright. In 1978, McDougal was four years away from leaving Madison, and Clinton was state attorney general. When McDougal bought Madison in 1982, Clinton was out of office.

The venture has been characterized as

McDougal. "Toward the end, I just wanted to liquidate it."

While the ownership was 50-50, McDougal says he poured in more money for capital improvements than the Clintons did. By his reckoning, McDougal lost \$115,000, while the Clintons lost \$9,000. McDougal thought he was more entitled to the tax losses, so he bought out the Clintons for \$1,000 in December, 1992—a transaction handled by Foster. McDougal, who says he gave all his Whitewater records to the Clintons, disputes a report done for the



HUBBELL

son's financial condition actually improved in 1985. But when federal regulators realized the thrift had a negative net worth in 1986, they moved quickly to oust McDougal. After she saw a report from the thrift's new auditors in 1987, she asked the Federal Savings & Loan Insurance Corp. to shut Madison down. "They told me they would not do it," recalls Schaffer, who is now a private attorney based in Fayetteville,

Ark. "The insurance fund was broke."

Madison was finally closed in 1989 when federal money became available. McDougal stoutly denies that he received favors. "I want them to assign every investigator to look at this and then find anything that Bill or Hillary Clinton ever did for me."

■ **Influence peddling.** In 1985, the First Lady, then a partner at the Rose Law

create mechanisms to insure public credibility for the decision-making process," he says. Giller adds that Clinton's unrelated business dealings with McDougal don't present a problem, either.

■ **Full disclosure.** The Rose Law Firm represented the Federal Deposit Insurance Corp. in a negligence suit against Frost & Co., Madison's former auditors. Critics say that a firm that had in the

law was an executive of the thrift's real estate arm and had won a judgment against the FDIC that was on appeal—link Hubbell disclosed, according to FDIC records. While some FDIC staffers wanted the Rose firm replaced, April Breslaw, the FDIC official in charge of the case, defended the firm. Hubbell was involved only in an indirect way, Breslaw said in an internal 1989 memo, and

his kinship was not a reason to take a case away from a law firm "that has obtained fine results for me on other matters."

■ **Small-business scam.** David Hale, a Little Rock businessman, alleges that McDougal and Clinton asked him in 1988 to make a \$300,000 loan to a marketing company owned by McDougal's wife. Hale, who ran a government-backed investment company, says the money was actually used to bolster Madison's finances. At one point, according to Hale, the money ended up in White Water's account.

If true, obtaining the loan under false pretenses might be illegal. But Clinton and McDougal deny the conversation ever took place.

Heuer, McDougal's lawyer, notes that at that time, Mad-



QUID PRO QUO? THE CLINTONS LOST THOUSANDS—HARDLY A SWEETHEART DEAL

Firm in Little Rock, represented Madison in its bid to get authorization from Schaffer for a preferred stock offering. The approval of the offering, which never actually was sold, has been questioned. Schaffer says that because the most recent federal exam showed the thrift was solvent, she approved the proposal.

Critics are suggesting that Hillary Clinton's representation of a firm before a regulator appointed by her husband amounted to nothing less than influence peddling, made worse by the fact that she had business dealings with the thrift's owner. It's safe to assume the governor's wife wasn't treated as just another lawyer. But Stephen Gillers, a professor at New York University's School of Law and a leading legal-ethics expert, says there was no impropriety. Lawyers are only now starting to struggle with ethical rules for two-lawyer couples, but it's clear, he says, that the rules wouldn't bar a lawyer from appearing before a state agency when the lawyer's spouse is governor.

In the case of Hillary Clinton, "that would exclude her from a vast amount of important work," Gillers says. It was up to the government—not Hillary—to

past worked for Madison shouldn't have been hired to sue its onetime accounting firm. And they say the FDIC never would have hired the Rose Law Firm if its past work for the S&L had been disclosed.

Rose partner Webster L. Hubbell, now the Associate Attorney General, says he informed the FDIC about the firm's representation of Madison on the preferred stock offering, though FDIC officials say they have no recollection of the disclosure. But the agency says the earlier work wouldn't be an issue in any event. An internal FDIC memo says the stock offering "was not substantially related to the lawsuit against Frost and would not be considered a disqualifying conflict."

More of an issue to some FDIC insiders was the fact that Hubbell's father-in-

son Guaranty was undercapitalized by \$8 million, and the \$300,000 loan would not have been much help. But more important, Hale's background may make him a slender reed to hang charges on. He didn't reveal the conversation until last fall, shortly before he was indicted on unrelated charges of defrauding the Small Business Administration of \$800,000. A trial is expected soon. Hale also may have an ax to grind: Five years ago, Madison foreclosed on a 1988 loan for \$300,000 on which Hale hadn't made payments. Neither Hale nor his lawyer returned calls seeking comment.

It could take years for the special counsel to sift through all this. And the Clintons have not helped their case by appearing to have something to hide. There could be a bombshell in their files, though the chances at this point seem slim. "We do have some embarrassing stuff here," says Representative Jim Leach (R.-Iowa). "But I don't think we have an episode that is of Presidency-toppling proportions." All the same, the White House will have to inhale a lot of smoke before the special counsel decides whether there is a fire here.

By Dean Foust in Little Rock and Sta Crock in Washington

The Clintons haven't helped themselves by giving the appearance that they have something to hide

BCCI: JUSTICE MAY FINALLY PREVAIL

A new prosecutor gets Abu Dhabi to give up files and a key player

As a team of U.S. investigators jetted to Geneva in early January for talks with Abu Dhabi officials, they were painfully aware that the probe into the 1991 collapse of Bank of Credit & Commerce International badly needed a boost. Only a few bit players in the U.S. and Britain had been convicted of any crimes associated with the \$12 billion fraud. The most prominent U.S. prosecution, of Robert A. Altman and Clark M. Clifford, collapsed last August with Altman's acquittal and Clifford's failing health. The main problem: Nearly all of the crucial records and witnesses were in Abu Dhabi. The Emirate—which owned 77% of BCCI—wasn't being terribly cooperative.

Four days later, the U.S. authorities flew home with a blockbuster deal that would reignite the BCCI investigations and help speed a partial payback to depositors. In return for dropping all criminal and civil actions against Abu Dhabi officials and entities, U.S. authorities obtained access to all BCCI files, including the secret records of Swaleh Naqvi, BCCI's former CEO. Just as important, Naqvi will be extradited to the U.S. And the Abu Dhabi government waived claims to \$400 million being held in the U.S. Most of that will be used to compensate BCCI depositors. "This is a huge, huge development," says Jonathan M. Winer, an aide to Senator John F. Kerry (D-Mass.) who spent two years investigating BCCI.

IRBO CHARGE. The story behind the deal involves a colorful cast of characters, including a Federal judge and a cantankerous former banker. The Geneva talks were only the last act in tortuous negotiations with Abu Dhabi authorities that began more than a year ago. But the talks made little progress until late last year, when a series of events put severe pressure on the Emirate's representatives.

The first important event was the arrival in early November of Gerald M. Stern as the Justice Dept.'s new special counsel for financial institution fraud.

A former general counsel for Occidental Petroleum Corp. and a savvy negotiator, Stern says when he arrived, the talks "were not going fast enough." Since U.S. negotiators had been unable to get access to documents in Abu Dhabi, Stern decided to push for a broad settlement. At a Dec. 10 meeting in Manhattan District Attorney Robert M. Morgenthau's office, Stern hammered out a tough new negotiating stance that satisfied Justice, Morgenthau, and the Federal Reserve.

On Dec. 13, Stern presented the new offer to lawyers at Patton, Boggs & Blow, Abu Dhabi's U.S. attorneys. It arrived just as the Abu Dhabi side was getting battered from an unexpected quarter: two civil lawsuits relating to BCCI. The most important was a \$1.5 billion racketeering claim brought by Harry W. Albright Jr., trustee for First

es, issued rulings that undermined the immunity claims. She permitted the Justice Dept. to subpoena some Abu Dhabi documents—something the Emirate wanted to avoid. And she left open the possibility that Abu Dhabi ruler Sheikh Zayed bin Sultan al-Nahayan might not be accorded head-of-state immunity, as Abu Dhabi's lawyers wanted.

BIG STICK. The immunity issue was crucial to the Abu Dhabi government. Denied immunity, all of its considerable U.S. assets could have been at risk, and Sheikh Zayed, his sons, and other government officials could have been subject to embarrassing criminal indictments. "It was a big piece of leverage to use against us," says a source close to the Abu Dhabi government. Further, on Dec. 23, Saudi banker Khalid bin Mahfouz settled charges for \$225 million and agreed to cooperate with U.S. authorities. A key BCCI banker, he could have given politically damaging evidence against Abu Dhabi.

The Geneva negotiations were grueling. Persuading Abu Dhabi to forfeit the \$400 million was the easiest issue, U.S. participants say. The hardest was getting the Emirate to deliver Naqvi, now on trial in Abu Dhabi along with 12 others. For the U.S. side, winning Albright's agreement proved the biggest headache.

The crusty former chairman of Dime Savings Bank demanded \$50 million to fund his racketeering suit against other defendants. He finally got the money.

The agreement could help BCCI liquidators in Europe, who are trying to collect compensation from Abu Dhabi. A tentative \$2.2 billion settlement was thrown out by a Luxembourg court last October. But the U.S. deal calls for Abu Dhabi to settle with the liquidators by Apr. 1 or turn over all BCCI documents to them.

The real coup for the U.S. is getting Naqvi. Using the six charges already filed against him as leverage, prosecutors hope to persuade Naqvi to guide them through warehouses full of documents. They're hoping to find evidence that

implicates prominent U.S. officials and makes possible new charges against Altman and Clifford. They also hope to find evidence of wrongdoing by BCCI clients, who included drug kingpins and Third World dictators. And they hope to gain a better understanding of just how the most corrupt bank ever was able to operate with impunity for 19 years.

By Mark Maremont in Boston

1991 JULY 5 BCCI is closed by regulators. Government of Abu Dhabi was principal shareholder. All records and most top BCCI executives remain in Abu Dhabi.

SEPT. 8 A federal grand jury indicts Swaleh Naqvi and other BCCI officials on bank-fraud charges.

SEPT. 9 Naqvi arrested in Abu Dhabi.

1993 AUG. 15 Robert Altman acquitted in New York on criminal-fraud charges in connection with BCCI's secret control of First American Bankshares; co-defendant Clark Clifford too ill to stand trial.

1994 JAN. 10 U.S. authorities reach settlement with Abu Dhabi. In return for immunity from prosecution, the Emirate agrees to waive claims on \$400 million invested in First American, make available all BCCI records, and extradite Naqvi to the U.S. to face charges.

THE CONTINUING BCCI SAGA



American Corp., the parent of a BCCI-controlled bank that had been seized by Federal authorities.

In both cases, Abu Dhabi was trying to claim immunity from many aspects of U.S. civil law, arguing that its U.S. investments had been made by an arm of the Abu Dhabi royal family. But District Court Judge Joyce Hens Green in Washington, who was hearing both cas-

Commentary/by Geoffrey Smith

MUTUAL FUNDS: THE RULES ON INSIDER TRADING, PLEASE

At the height of the insider-trading scandal in the 1980s, Congress tightened the restrictions against abuses by investment insiders. A 1988 law imposed harsh penalties on any securities firm that failed to monitor adequately the trading practices of its employees. For the most part, the law has worked well. So it is disturbing that a new source of worry has arisen—this time from the comparatively scandal-free mutual-fund industry.

A recent flurry of bad publicity about fund managers trading for their own accounts gives investors some cause for concern. On Jan. 4, Invesco Funds Group Inc. abruptly fired its star portfolio manager, John J. Kaweske, alleging that he had failed to report his personal investments properly. (Kaweske denies any wrongdoing.) Investors at other fund groups have no way of knowing whether their fund managers are violating the rules—or even what those rules might be. It's a common practice for fund managers to trade for their own accounts. But the ethical codes that regulate such trading vary widely, and there are vast gray areas that allow fund managers to profit from their positions as insiders.

Concealing personal trades, as has been alleged at Invesco, would be a firing offense at any company. An even more serious offense would be "front-running," in which managers buy stock for themselves and then buy the same shares for the fund. But there is a wide range of other dubious trading practices, and what is a firing offense at one company can be standard practice at another. Consider these differences in trading policies:

- At Smith Barney Shearson Inc., mutual-fund managers and brokers are barred from making a short-term profit on personal investments: They can't buy and sell the same stock within a two-month period. But many other firms impose no such restriction.

- Some fund companies allow managers

to invest personally in private placements. If the companies go public, the managers may put their mutual funds into those same companies. Other firms consider this a conflict of interest because the fund investment invariably boosts the share price and enriches the fund manager.

- Some companies either allow employees to serve as directors of companies in which they invest privately, or else

be allowed to make money legitimately just like anyone else. Such trading also can sharpen their investment skills, thus ultimately benefiting fund customers.

The issue is one of public disclosure. Investors are clueless when it comes to what rules the people who manage their money are supposed to follow for their own trading. The Fidelity and Merrill Lynch fund groups, for example, won't disclose the terms of their ethics policies—thereby leaving their customers in the dark about the rules followed by their fund managers. Fund companies would help their cause if they included in their prospectuses a detailed description of the rules governing trading by the fund's own employees.

THIN BLUE LINE. More oversight is also warranted. Fund companies boast of their clean records—especially when compared with brokerage firms—but they shouldn't be too cocky, as Invesco shows. The Securities & Exchange Commission has been complaining for years that it has too few resources to monitor

fund companies. And it's right: 46 examiners are not enough to regulate an industry with \$2 trillion in assets.

There are now two proposals in Washington to strengthen regulatory oversight. Legislation in Congress would boost fees paid by fund companies to the SEC to allow the agency to hire more examiners. The other idea, floated by SEC Chairman Arthur Levitt Jr., is to use fund fees to create a self-regulating body for the industry, similar to the one used by the New York Stock Exchange. Both make a lot of sense. But the fund companies would do well to seize the initiative while Washington dithers. Publicizing fund conflict-of-interest rules would go a long way toward easing investor fears and preventing an ill-advised crack-down on a dynamic industry.

Smith covers the fund industry from Boston.



they wink at the practice. Kaweske, for example, was the director of ID Biomedical Corp., a company in which he both owned a personal stake and had invested for his funds. Invesco claims the firm never knew. Kaweske's lawyer, however, maintains it was common knowledge.

The rules are unclear in many other areas. At mammoth Fidelity Investments, former fund managers say, managers have been known to identify stocks that other managers were about to buy for their funds, and then buy the stocks for their own account. Another technique cited by an ex-Fidelity manager was to short the stocks that were bought by managers they don't respect.

The issue is not whether personal trading by fund managers should be banned. There's a strong argument in favor of permitting such trades, because investment professionals should

The Supra easily outgrips the Ferrari 512 TR and the Porsche 911 Turbo, is more stable in abrupt maneuvers, and digs to a halt with near identical determination."

Road & Track/August, 1993

"The Supra Turbo is an absolute beast."

Automobile Magazine/April, 1993

"The brakes are magnificent—I've never tried better."

Car and Driver/September, 1993

There is every reason to believe that the Toyota Supra Turbo, at about one-fifth the financial assault of a Testarossa, can match the legendary Ferrari's pace on just about any twisted piece of asphalt. Ditto the \$100K Porsche."

Road & Track/August, 1993

"Supra Turbo is the MVP (Most Valuable Performer) of the Automotive Dream Team."

Motor Trend/August, 1993

These Are The Reviews. Imagine The Performance.

"The intercooled sequential twin-turbo version is the real adrenaline pump. When both turbos are spooled up, there's 320 hp on the Supra's tap."

Popular Mechanics/March, 1993

"The ante to compete in the world's order of ultra-performance cars has just been raised. The Toyota Supra Turbo is the new Top Gun."

Motor Trend/August, 1993

"The Supra Turbo does what few other cars in history have been able to accomplish: Combine exoticar performance with luxo-coupe grace and deliver it all at a price that won't cause angina pectoris."

Motor Trend/August, 1993

"...could be history in the making."

Road & Track/March, 1993

"A world beater."

Car and Driver/September, 1993

 **TOYOTA Supra**

"I love what you do for me."



The 1994 Toyota Supra. It's Taken Everything Sports Cars Were Before

And Crossed The Line.

BY JEFFREY M. LADERMAN

CABLE TV: STARSIGHT'S STAR BRIGHT

As a rule, individual investors shouldn't chase hot initial public offerings. Most IPOs, after an initial run up, return to earth with a thump. StarSight Telecast is a case in point. It went public on July 30 at 15. A few weeks later the stock was nearly 26, and the shares currently trade at 14. Some savvy pros say now is the time to get in.

StarSight is not for the faint of heart. The Fremont (Calif.) company expects to see revenues for the first time this year and is years away from profitability. "It's speculative," says Mark Regan, a portfolio manager with Massachusetts Financial Services, "but if it works, it's big money."

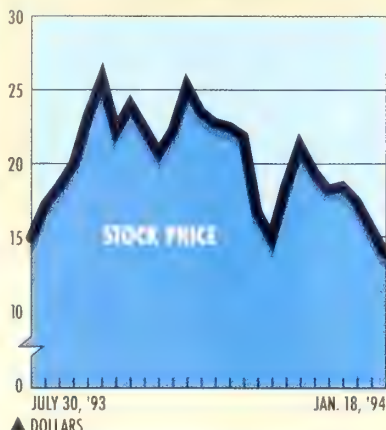
For a few dollars a month, StarSight will provide viewers with an interactive system to help navigate the hundreds of channels that cable TV will eventually offer. For starters, StarSight provides program listings for every channel for a week, not just for a few hours ahead. With a special remote control, a viewer could hit a topic, say, "sports," which would generate listings of sporting events on all channels. Another button on the remote control instructs your VCR to tape it.

"StarSight would be a nice product in today's 50-channel cable environment," says analyst Alan S. Gould at Kidder Peabody, which co-managed the IPO. "But it will be a necessary product when you have 150 or more channels." Listing hundreds of channels will be unwieldy for *TV Guide* and the papers.

BIG BACKERS. To receive the programming, subscribers need a StarSight chip in their television, VCR, or cable converter box, or a freestanding converter unit. StarSight has already enlisted Zenith, Goldstar, Mitsubishi Electric, and Samsung to put the chip in some TVs and VCRs. Cable-box manufacturers Scientific Atlanta and General Instrument will include the chip in new converters. But StarSight is not dependent on cable companies linking it to homes. The service will also be available over the airwaves.

StarSight faces competition in interactive program guides, including *TV Guide's* electronic listings. But the fledgling company has big names in

WILL STARSIGHT TAKE OFF AGAIN?



DATA: BRIDGE INFORMATION SYSTEMS INC.

its corner. Viacom owns a 21.4% share, and strategic investors—which include KBLCOM, Times Mirror, Providence Journal, Cox Communications, Tribune Co., and Spelling Entertainment—in total own nearly half the stock. In addition, these investors will offer StarSight over their cable systems. StarSight will soon debut on a Viacom cable system in Castro Valley, Calif.

True, StarSight filed patent infringement suits against Gemstar Development and United Video Satellite Group, and Gemstar countersued StarSight. But Gould argues that StarSight's partners would not have invested if the patent wasn't secure.

Gould estimates StarSight will be in 23% of U.S. homes by 1998—which should produce some \$300 million in sales and \$100 million in profits. Shareholders won't have to wait that long to be rewarded. Gould thinks the stock will sell at 30 within 12 months.

KEEP YOUR EYE ON THIS ODD MIX

Diana Corp. is one of the more obscure companies on the Big Board. Some 90% of its \$250 million in sales comes from the distribution of beef, pork, poultry, seafood, and cheese to restaurants and retail outlets in the southeastern U.S. That's hardly the sort of business to get investors' adrenalin going.

The other 10% is what's really intriguing. That comes from its C&L Communications unit, the major U.S. distributor for Newbridge Networks and Mitel, two of the hottest companies in

telecommunications equipment. C&L, which dishes up 66% of Diana's profits, also hopes to cash in on the newly deregulated markets abroad. Richard Y. Fisher, Diana's chairman, estimates that telecom revenues will grow at the 25%-to-30% rate vs. 9% for what he calls "the protein business."

Doron Gahtan of Gahtan Capital Management in Toronto thinks Diana at 7 1/2 is an easy double. Diana has \$2.65 a share in cash, and tax-loss carryforwards of \$2.50 per share. Says Gahtan: "With the market so high, I want to own stocks that also have some downside protection."

A GOOD HAND FOR UNITED GAMING

In a city filled with glitz, Las Vegas-based United Gaming has little of it. The company's revenues come mainly from placing its slot machines and other coin-operated gambling devices in bars, restaurants, and retail outlets. But what United Gaming, now selling at 8 1/2, has that the giant gaming operators don't is superinvestor Richard E. Rainwater.

Rainwater's Kirkland-Fort Worth Investment Partners and Gaming Systems Advisors invested \$5 million in United Gaming. Through restricted stock and warrants, the Rainwater group holds 20.4% on a fully diluted basis. The Rainwater deal, plus \$85 million from a convertible debt issue, gives United Gaming the means to expand. Besides Nevada, it's looking to Louisiana, where it has 800 video poker machines. It also plans to invest in a dockside casino in Vicksburg, Miss., and is part of a group seeking a riverboat casino in Evansville, Ind.

In addition, Rainwater's group named four of the seven UG directors. The investor says he's not taking an active role in the company—he just wants to invest in a booming industry. "People can't get enough of the thrill of betting," says Rainwater.

Despite revenues of \$113 million in the fiscal year ended June 30, UG lost money and hasn't made a profit since 1990. One New York pro has been buying shares mainly because of Rainwater. With United Gaming, Rainwater says he hopes to duplicate what he did in health care six years ago: His original \$125,000 investment in a hospital company is now worth over \$100 million in Columbia Healthcare stock.

With Ronald Grover in Los Angeles

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THE NEW SOUL OF JOHN DEERE

Its far-reaching overhaul is redefining blue-collar roles

For 26 years, John Soliz assembled parts for John Deere & Co.'s giant planting machines. "I always helped the company any way I could," he says, once even teaching a class on advanced manufacturing methods. But Deere managers had more in mind two years ago, when they asked Soliz, a member of the United Auto Workers, to join other workers and travel across North America explaining Deere's new products to dealers and farmers.

Deere figured assembly-line workers, with their intimate knowledge of the equipment, would make a powerful marketing team. So after six months of training, Soliz spent 1993 hustling around the Midwest as a Deere pitchman with his own expense account. He logged over 7,000 miles speaking to groups of farmers. Often, he pulled into small towns and stayed up past midnight assembling displays for meetings the next morning. But Soliz has no complaints. "I developed new skills," he says. "I got to know the customer."

UAW members acting as traveling salesmen—and on a corporate expense account? Have the managers of 156-year-old Deere lost their minds? Hardly. With long-term demand for farm equipment weakening and competition intensifying, Deere Chief Executive Hans W. Becherer believes the speediest way to adapt to the tough environment is to reach out to his work force.

Asking workers such as Soliz to improve their skills by taking on new jobs is just one of the labor innovations sweeping Deere, which is based in Moline, Ill. Hourly workers routinely offer advice on everything from cutting production costs to improving product quality. Deere hopes to improve productivity even more

through expanded employee training programs. It recently concluded a union contract that bases pay increases on completing college courses and demonstrating new skills—not, as in most labor agreements, on seniority (table). "It's often the people at the root of the company, on the shop floor, who will provide the best answers," says Becherer, 58 and CEO since 1990.

THINNING RANKS. Deere's innovations are paying big dividends. Profits rebounded sharply last year. And in 1994, Deere's net income could top \$385 million, up 35% from 1993, as sales climb 5%, to over \$8 billion, says Ingalls & Snyder analyst Alexander Blanton (chart). Nowadays, Deere even shares the limelight with the likes of Chrysler and Motorola as a company that could serve as a blueprint for the revival of other manufacturers. "Deere is on the cutting edge," says Jeffery T. Grade, CEO of Harnischfeger Industries Inc., a Brookfield (Wis.) company that makes paper-product machinery.

Deere's management has spent years overhauling the once-stodgy company. It adopted advanced manufacturing methods, such as teamwork and partnering with suppliers, as long ago as the 1970s. Still, Deere stumbled three years ago as the recession pounded sales. Competi-



tion from rival Caterpillar Inc. also hurt as did falling farm incomes. In 1991 Deere had a loss of \$20 million, vs. 1990 profits of \$411 million. Sales slumped 11%, to \$7 billion. In response, Becherer stepped up Deere's push into insurance and health care. The company has already expanded its health maintenance organization to serve nonemployees. "We're going to leverage our presence in rural America," vows Becherer.

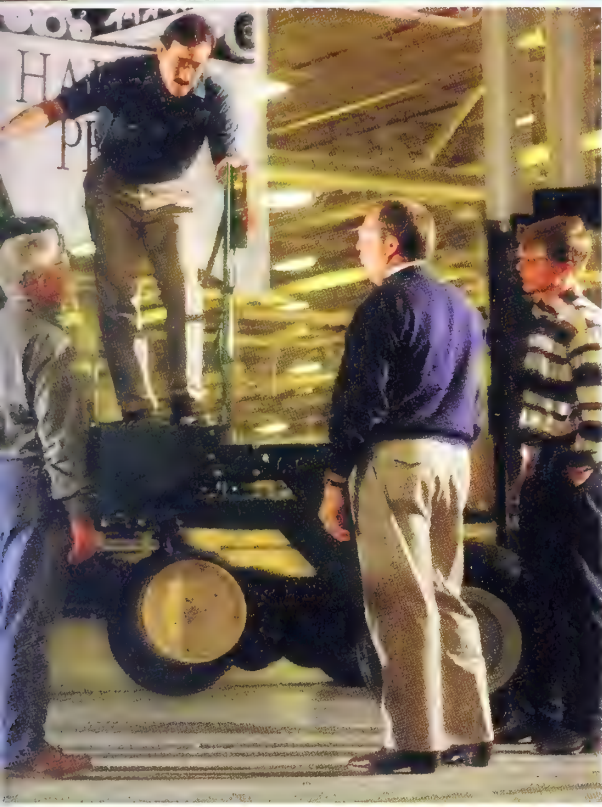
What Deere is leveraging most, however, is its work force. To some degree, it didn't have a choice. Years of downsizing to adapt to the shrinking farm market had thinned the ranks of Deere employees—including white-collar supervisors. Managers realized they had to rely more on blue-collar talent.

But Becherer also believed Deere had a lot to learn from its employees about quality and costs. Most of its blue-collar workers, largely represented by the UAW, have over 15 years' experience on the shop floor, and the company has poured vast resources into training them, including classes in robotics and cost-reduction techniques. Moreover, Becherer believed employees would be more receptive to improving efficiency if they felt part of the process.

One of the more intriguing ways Deere is trying to involve its labor force is by assigning workers to "nontraditional jobs." Soliz, for example, is one of many factory workers to be given tem-



BECHERER IS POURING BIG BUCKS INTO ROBOTICS AND COST-REDUCTION CLASSES



**PART-TIME PITCHMAN:
UAW FACTORY WORKER
SOLIZ DEMONSTRATES A
GRAIN DRILL TO FARMERS**

emissaries take matters into their own hands. Soliz found dealers had a hard time unloading planting equipment from trucks without damaging it. So he visited his factory mates, and they figured out how to load the machinery so that it could be taken off safely.

Frequent contact with customers also makes Deere workers more quality-conscious. Groups of workers from the East Moline plant routinely use a company van to make unsupervised day visits to local farmers. Last year, paint-shop employee Paul Laird visited farmer Cliff Warkins, who, Laird says, explained how a

good paint finish prevents rust, a link Laird hadn't thought much about. "I pay a lot more attention now," he admits.

Deere has also tapped its work force to help it reduce product cost. At its Davenport (Iowa) plant, it has grouped workers into cost-reduction teams that meet weekly to figure out ways to simplify parts or eliminate production problems. The teams are encouraged to visit the design office and deal directly with engineers. Recently, one such team pointed out that two engine brackets could be eliminated from a new line of earth-moving equipment. The suggestion will speed assembly and save Deere \$16 per

vehicle. Thanks in part to such suggestions, Deere has cut its design times by 33% over the past three years.

Deere also relies on insights from the shop floor to improve its manufacturing process. At many plants, the company has turned over control of production to so-called self-directed work teams. One group putting together straw-disposal attachments for harvesting equipment in the East Moline factory helped overhaul its assembly-line methods by bringing together 12 manufacturing steps at a single site. Previously, the steps had been scattered through the factory. They also took charge of scheduling overtime and vacations. The upshot: The team cut assembly costs by over 10%.

NOVEL CONTRACT. Suppliers are also benefiting from Deere's work force. Consider Evans Manufacturing Co., a Rock Island (Ill.) company that makes rear-axle parts for Deere combines. Company President William Evans used to deal with a Deere manager who was far removed from the shop floor. Delivery foul-ups were common, he says. Now, his main contact is Gary Versluys, an hourly employee who assembles rear axles. And since Versluys spearheaded a project to adopt a just-in-time system to cut down on inventory, Evans says he has speeded up deliveries to twice a week from twice a month. That in turn has cut his own inventory by about 20%. "It has worked out great," Evans says.

As he expands the responsibilities of hourly employees, Becherer is stepping up training to equip them for those new roles. On average, Deere's East Moline work force logged 28 hours learning about advanced manufacturing techniques in 1993, up from 15 hours in 1988. Deere also sponsors 50 continuing-education programs for employees on subjects such as activity-based costing.

And the training effort doesn't stop

orary jobs elsewhere. Deere hopes to expand the program in the future. While Soliz and some of his co-workers are off selling Deere equipment, others, such as David Rowe, are instructing customers and dealers on proper maintenance. Rowe spent the last year traveling three weeks out of four to visit dealerships and customers.

BRIEFINGS. Besides having knowledgeable employees rub shoulders with customers, Deere gets valuable feedback. Workers are debriefed by management after every trip, and their insights are used to improve customer service or address quality problems. Sometimes these

DEERE'S LABOR-FORCE INNOVATIONS...

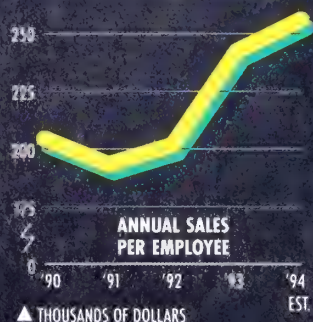
EDUCATION Deere has begun an experimental program in which a small number of hourly workers' pay raises are tied to completing technical courses at a local community college and then demonstrating their new skills on the job.

NONTRADITIONAL WORK In partnership with the UAW, Deere assigns employees to jobs in customer service and dealer training to diversify their skills.

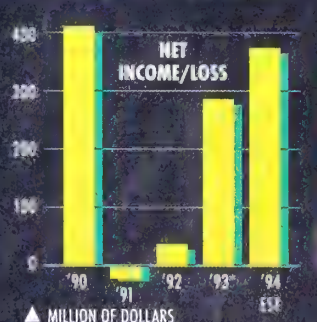
CUSTOMER CONTACT To improve quality, hourly workers periodically visit farms to meet customers, see how they use equipment, and better assess their needs.

SUPPLIER MEETINGS To help suppliers cut costs and improve delivery times, Deere organizes sessions between suppliers and assembly-line workers.

...ARE HELPING TO IMPROVE PRODUCTIVITY...



...AND SPUR PROFIT GROWTH



DATA: COMPANY REPORTS, INGALLS & SNYDER, BUSINESS WEEK

*RESULTS FOR FISCAL 1993, ENDED IN OCTOBER. DON'T REFLECT \$1.14 BILLION NONCASH CHARGE FOR ACCOUNTING-RULE CHANGES

there. In 1992, Deere implemented a novel contract with the International Association of Machinists to tie pay increases to skill levels. As part of the deal, Deere teamed with nearby Black Hawk Community College to offer 65 iam workers a two-year degree in electromechanical technology design. Deere looks on this contract as a model for future labor deals. "This is job security," says iam training coordinator Brian Mumma. "With an education like this, we've got the ability to do anything."

Of course, Deere's high degree of labor and management cooperation requires exceptional harmony. And both sides have taken steps to maintain a good relationship. UAW leaders and managers at Deere's Davenport facility, spent three days last June huddled at a rural resort with a human relations consultant trying to forge better ties.

OBSTACLE COURSE. When relations remained strained on the final day, the consultant forced the two sides to work together to traverse an outdoor obstacle course. "Suddenly, we had to trust each other," says plant manager Richard Pote-rack. "That broke down a lot of walls." Agrees UAW Local 281 President Jeff Middleton: "It was the most positive thing I've been associated with." To spread the good will, Deere has built its own obstacle course at its Davenport plant and has required many of its employees to complete it. Deere's labor tranquility stands in sharp contrast to the turmoil at Caterpillar, whose UAW employees have worked without a contract for two years. Deere hopes the striking difference will turn out to be a selling point with customers who are concerned that labor strife could interrupt production and delivery.

Still, while productivity and profits are rising, Deere isn't out of the woods yet. Record farm income and a rebound in demand for construction equipment have helped the company lately. But Deere is stuck in slow-growth markets. And with ailing rival JI Case reviving, profits may be harder to come by later in the decade. Moreover, the UAW isn't at total peace with Deere. Jim Hecker, the union's coordinator at Deere, complains that the company is outsourcing too much work, which could cost employees their jobs and undermine the current cooperation. "Overall, the relationship could improve," he says.

If he's worried, Becherer's not showing it. He believes expansion into Eastern Europe, combined with branching into new businesses, will keep Deere growing. "We have damn good employees," Becherer says. "We can compete with anyone in the world." An idle boast? Rivals may wish to believe so. But for now, Becherer has the profits to prove it.

By Kevin Kelly in Moline, Ill.

Government

TRADE

GREASING THE SKIDS FOR EXPORTS

How the Clinton team is making it easier to expand abroad

When Export-Import Bank Chairman Kenneth D. Brody first arrived on the job last January, he got a quick lesson in just how frustrating it can be for exporters to deal with Washington. At the advice of a senior Ex-Im official, Brody called 411 for the phone number of his agency, which arranged for \$15 billion in financing and insurance for overseas sales by U.S. companies last year. When he dialed the listing, a recording told him how to get tickets for a tour of the Bureau of Engraving. "I'm under no illusions here," Brody says. "We have a long way to go."

At least the Clinton Administration now has a road map to its destination. With battles over the North American Free Trade Agreement and the General Agreement on Tariffs & Trade—holdovers from Republican Administrations—now won, Clinton's trade officials are finally on to their next task: oiling up the U.S. export machine (table). They're boosting coordination among all agencies with a hand in exports. They're shifting resources for export assistance to small and medium-size exporters and to novel ventures. And they're changing the focus away from Japan and Europe to such "big emerging markets" as Mexico, Brazil, and Turkey. "This single-minded focus on helping business position itself in overseas markets is long overdue," says Barry K. Rogstad, president of the American Business Conference, a trade association of midsize companies.

"SCARED." Still, the Administration faces plenty of skepticism, starting with exporters themselves, who have long viewed Washington more as a barrier to trade than as a catalyst. Licensing controls devised during the cold war, for instance, barred the export of scores of goods easily obtained at a neighborhood Radio Shack. And companies complain that U.S. embassy bureaucrats of-

ten show disdain for business and are at best indifferent to export efforts. "These guys have been scared to help you," says Lee Berlin, an advocate of small exporters and the retired chairman of LecTec Corp., a Minnetonka (Minn.) maker of medical adhesives.

If the Administration has its way, such roadblocks are about to tumble. Step One begins in late January, when the



Commerce Dept. opens export centers in Los Angeles, Miami, Chicago, and Baltimore to provide "one-stop shopping" assistance to U.S. businesses seeking markets abroad. In the past, companies interested in expanding abroad had to deal with up to 19 agencies—all requiring separate paperwork. Next, the President's 1995 budget, to be released in February, will call for up to \$150 million to fight "tied" aid provided by foreign rivals—funds conditioned on the purchase of goods from the donor.

Finally, a shift in Ex-Im's lending

strategy will allow it to funnel more funds to small and medium-size exporters and to riskier export ventures, primarily in the former Soviet Union. To free up \$100 million in loans and loan guarantees for that purpose, Brody called major beneficiaries of the agency's financing, such as Boeing Co. and McDonnell Douglas Corp., into accepting higher loan fees. In return, those manufacturers can now ask for larger financing packages. Meanwhile, other large, routine loans will be delegated to commercial banks for processing, freeing Ex-Im officials to devote time to the more adventuresome projects. "We're leveraging ourselves as much as we can to get the job done," says Brody.

Tackling trade problems is the top priority for both Brody and Jeffrey E. Garten, Commerce Under Secretary for International Trade. Both came to Washington from Wall Street. Brody was a partner at investment banker Goldman, Sachs & Co., where he was a colleague

panel proposed lifting export controls on 70% of all computer goods in the U.S. and laid out 50 recommendations for improving export promotion.

While Brody is the money man, the guy in charge of the policy overhaul is Garten, 48. It's his idea to reorient the government's attention toward emerging markets, where half the world's population lives. According to Commerce Dept. projections, these countries will account for 40% of the growth in international trade in the next decade. "It's a strategic objective of the highest order that we figure out a way to penetrate these markets," says Garten.

Information about the business opportunities in many of these markets is scarce. So Garten is compiling a data base of big infrastructure projects in the developing world with work of interest not just to multinationals, but to smaller companies seeking niche markets overseas. In the 1995 budget, Clinton will ask Congress for an additional

erly: About 80% of the money in the 1995 budget will go to agriculture, which accounts for only 10% of exports. "It is ludicrous for the Administration and the Congress to talk trade, jobs, and global competitiveness while continuing to overfund less productive areas of our economy," says Duggan.

Nor is it clear how much of a market there will be for one-stop shopping offices. Trade experts doubt there are hundreds of small operations out there just waiting for government guidance to launch an export juggernaut. Many mid-size companies, meanwhile, grew tired of waiting for help and developed their own export savvy. For example, in 1992, Richard W. Snyder, CEO of SnyderGeneral Corp. in Dallas, struck a joint venture with an Indian company, Kirloskar Ltd., to market its air-conditioning and air-filtration systems. The \$750 million company, which gets 45% of its sales from abroad, lined up letters of credit and staffed up overseas without Washington's aid. "I'm not sure what the government is going to do now that is going to help us," he says.

IMPEDIMENTS. Garten's shift in target markets has doubters, too. Emerging economies are plagued by unstable governments, widespread corruption, and different attitudes toward contracts and property rights—all impediments to small U.S. exporters. And some executives who have tried to penetrate these second-tier nations doubt they'll see a payoff anytime soon. Such markets have "always [had] huge potential, but not big sales," complains John P. Morgridge, chief executive of Cisco Systems Inc., a Menlo Park (Calif.) computer-networking equipment maker. "It has never materialized into real business opportunities."

But most trade experts and economists say that one way or another, exports will be the U.S.'s engine of growth. Merchandise exports as a percent-

CLINTON'S PLANS TO BUILD AN EXPORT MACHINE

on "Big Emerging Markets"—China, India, Indonesia, Poland, Argentina, and 7 other countries—where economic growth outpaces that in the industrialized world

COORDINATE efforts by 19 agencies to sales efforts by the President and traveling dignitaries

small and midsize businesses by opening one-stop export centers in key cities, setting up an infrastructure project database, and boosting funding for interested exporters

FINANCE more unorthodox ventures—especially small business, energy, and environmental goods and services

White House Economic Advisor Robert E. Rubin. Garten, meanwhile, came from the Blackstone Group, where Deputy Treasury Secretary Roger C. Altman also worked. Brody, a top Clinton fundraiser, knew Commerce Secretary Donald H. Brown from the campaign. Even before they were nominated to their posts, they all began to plot a revolution in the country's trade policy.

Brody, 50, started the process last year when he was named to chair the Administration's Trade Promotion Coordinating Committee. In September, the



GARTEN: AFTER NEW MARKETS

\$5 million to \$10 million for Commerce's Foreign Commercial Service to be used to train embassy personnel to help business make overseas contacts and gain access to bidding on foreign contracts.

Business, while pleasantly surprised at all these initiatives, isn't yet rejoicing. E. Martin Duggan, executive director of the Small Business Exporters Assn., notes that the Administration is mostly rejiggering existing funds, not pouring in new money. The U.S. spends \$5 billion a year in direct aid to promote exports, but Duggan contends it's not spent prop-

erty of American output grew from 5.5% in 1986 to 7.5% in 1992 and are heading higher. With the dollar weak and productivity gains high, U.S. companies are showing that they can compete. Washington wants to help them do even better. "Nobody says this was going to be easy," Garten says. "But this is our bet on the future." You'll know easily enough if he and Brody are making headway: Call Washington information, ask for Ex-Im's number, and see what you get.

By Douglas Harbrecht in Washington, with Robert D. Hof in San Francisco

GROVE HOPES
USING PCs AS
VIDEOPHONES
WILL CREATE A
NEW MARKET



INTEL STEERS THE PC ONTO THE INFO HIGHWAY

Jazzy communications add-ons could spur Intel chip sales

Andrew S. Grove, chief executive of \$8.8 billion chipmaker Intel Corp., can't wait to show off his new toy. Sitting at what looks like a standard personal computer, he phones an assistant. A jerky video image of the assistant's face appears in a window on Grove's screen. Equipped with a series of Intel products to be unveiled Jan. 25, the PCs let Grove and his associate see and hear each other and work on the same documents—all at the same time. "The PC's never going to be the same," exclaims Grove.

It's no wonder he's as excited as a kid on Christmas morning. Grove hopes these "personal conferencing" products will generate entirely new ways to use Intel-powered PCs. Two decades after its microprocessor started to transform the computer industry, Intel is plotting to lead the next revolution. By jazzing up the 13-year-old PC with new application programs, hardware add-ons, and design standards, Grove hopes to make it as useful for communications as it is for number-crunching—an information appliance for the Information Superhighway.

Says Grove: "We have to make the PC the ubiquitous interactive access device."

But don't confuse Intel with all those headline-grabbing highway hucksters. Grove isn't talking pie-in-the-sky. His objectives are simple: to push PCs to new limits so customers will buy models using the most advanced Intel chips—the ones that clonemakers such as Advanced Micro Devices Inc. and Cyrix Corp. don't sell. At the same time, by giving the

PC a voice and a view, customers have less reason to consider the powerful workstations based on RISC (reduced instruction-set computing) chips.

Even more important, Intel wants to make sure the IBM PC standard—based on Intel chips—prevails in the era of multimedia and mobile computing. Already, there are danger signs. IBM and Apple Computer Inc. are both creating multimedia machines based on the Pow

MAKING THE PC A GREAT COMMUNICATOR

DIGITAL VIDEO FORMAT Data-compression software allows video playback on PCs without special hardware

PERSONAL CONFERENCING ProShare lets users collaborate electronically

VIDEOCONFERENCING VideoSystem 200 software/hardware package lets people do videoconferencing on PCs

COMMUNICATIONS ADD-ONS Cards are aimed at key PC applications

PCs ON CABLE High-speed modem under development with General Instrument could connect PCs to cable TV

COMMUNICATIONS ALLIANCES Projects are under way with videoconferencing, networking, and phone companies.

PC STANDARDS Collaboration with PC and software companies could lead to faster internal pathways and make PCs easier to use

DATA: INTEL CORP.

PC chip they're developing with Intel and Motorola Inc. Silicon Graphics Inc. has contracts to build sophisticated cable-TV boxes using its MIPS microprocessors. And a growing number of gizmos, from personal digital assistants to game machines, are rolling into U.S. homes and businesses—without Intel chips.

And there's another threat: digital signal processors (DSPs). These superfast chips are specially designed to handle video, audio, and communications. By using these chips, PC makers could build advanced multimedia systems around the less expensive Intel 486 chips or its clones—instead of moving up to Pentium. Indeed, despite record 1993 earnings of 2.3 billion reported Jan. 18, Intel shares dropped sharply because of investor concern that profits may level off from increased competition and slowing PC sales.

IN THE BUS. So, Grove has launched an ambitious strategy—spending some 20% on research and development, about \$200 million a year, to make Pentium-based PCs into great communicators. First, he's pushing the manufacturing pedal to the metal, cranking up Pentium output at twice the rate of the 486s. And to make sure they sell, Pentium prices will drop 50% from the first to the second quarter. Intel is also proposing new hardware standards to get better video and multimedia performance out of PCs. It has a new "bus" to speed the flow of data between the microprocessor and other parts of the PC. It's also working with networking specialists Novell Inc. and Synoptics Communications Inc. to help PC networks handle video and audio efficiently.

Intel's most aggressive move will come Jan. 25 at the ComNet trade show in Washington, D.C., when Grove is scheduled to introduce three personal conferencing products. The first, dubbed ProShare, which analysts say will sell for \$99, enables two people to work on the same documents or drawings simultaneously. PCs can't do that now without special hardware or pricier software.

Grove's favorite new toy, though, is the VideoSystem 200. It consists of two add-on cards to handle video, a tiny camera, a headset, and the ProShare software. Thus equipped, PCs based on 486 Pentium chips can exchange live video. The images are a bit jerky because they show only 15 frames per second, half that of television. But at under \$2,000 per PC, probably the cheapest product around for videoconferencing on PCs. Grove used to setup to beam himself into a recent sales meeting in Los Angeles.

At minimum, these add-ons get Intel into a hot market. Sales of computer-based videoconferencing systems will grow from \$70 million last year to \$3.4 billion in 1997, forecasts Waltham (Mass.) market researcher Personal Technology

Research. But Grove makes the real purpose clear: "The good thing about this," he says with a glint in his eye, "is that it eats all resources." In other words, it will sell Pentiums.

To help jump-start the market, Intel is signing up—and buying—a lot of new friends in communications. Last year, Intel invested \$7 million in VTEL, a videoconferencing company. On Jan. 7, it bought a \$2 million stake in Compression Laboratories Inc. with which it will co-develop PC products. And on Jan. 10, it joined with Compression Labs, AT&T, and 10 others to write PC conferencing standards. Intel is also making sure PCs can plug into phone systems. Last May, it teamed with Microsoft Corp. to write standards for PC programs that work with telecommunications gear.

While it's aiming first at businesses, Intel isn't forgetting couch potatoes. Last month, it joined with General Instrument Corp., a maker of cable-TV converters, to create a modem to let PCs tap data coming across cable systems. Intel al-

ready has a \$300 million consumer business that includes fax and modem cards.

Grove's bid to push the PC onto the Information Superhighway has its risks. There's plenty of competition in videoconferencing, including PictureTel, AT&T, and Compression Labs, which still plans to compete with higher-end gear. Moreover, Intel's product could be a hard sell because it requires expensive digital phone lines. And despite its clout, the market doesn't necessarily anoint Intel standards. For example, most computer makers rejected Intel's earlier Digital Video Interactive format.

Still, Intel has awesome strengths—not least a hoard of \$3.3 billion in cash and securities. So the \$200 million it's spending to make the PC a communications powerhouse can be seen as a cheap insurance policy on the \$5 billion it's spending on Pentium. And it sure makes the PC a cool executive toy.

By Robert D. Hof in Santa Clara, Calif., with Gary McWilliams in Boston and Peter Burrows in Dallas

COMPUTERS

WORKSTATIONS HAVE THEIR WORK CUT OUT

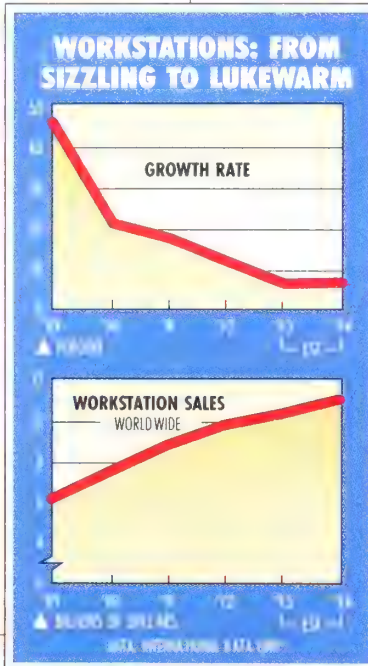
Will lower prices and new markets stem the PC onslaught?

For many of the most critical computing jobs at DuPont Co., nothing but engineering workstations would do. Speed, crisp graphics, and built-in networking made them ideal for analyzing lab data, managing inventory, and preparing documents, all of which made DuPont a showcase account for workstation leader Sun Microsystems Inc. But the show may be over: The chemical giant now thinks off-the-shelf personal computers are powerful enough to consider for some of those jobs. Says David A. Pensak, a DuPont consultant: "I can get the fastest PC for less than I can get anybody's workstation."

DuPont is not alone. A new generation of ultrafast PCs based on Intel Corp.'s Pentium microprocessor—and forthcoming IBM and Apple Computer Inc. models based on the

PowerPC chip—is making corporate customers think twice about workstations. While workstation sales growth in 1993 slowed to 6.3%, to \$10.3 billion (chart), the huge PC market grew by 10.8%, to \$69.8 billion, says market researcher International Data Corp. A lot of that

growth came from the red-hot home-computer market. But, increasingly, top-end PCs are squeezing workstation makers. Dataquest Inc. predicts that some 20% of the Pentium PCs sold this year will be used for workstation applications. "1994 is the year you see PC vendors really pushing into the traditional workstation market," says IDC analyst Nancy Battey. **ON GUARD.** So instead of invading the huge, general-purpose desktop computer market—as they have long boasted they would—workstation makers



Information Processing

are on the defense. On Jan. 18, Hewlett-Packard Co. unveiled a workstation for \$3,995. In February, Digital Equipment Corp. and Sun will weigh in with sub-\$4,000 workstations. And in March, the lines will blur even more as IBM and DEC release PC-like models in the \$3,000 range that use RISC (reduced instruction-set computing) microprocessors—a workstation mainstay.

crunchers: workers who analyze complex market data, process insurance claims, and track orders, for example. Market researcher Summit Strategies figures powerful machines—both Pentium PCs and workstations—for such jobs will claim 20% of the desktop market by 1998, from 3% today.

If workstation makers can't spread out to new markets in 1994, their pros-

ing out service to Eastman Kodak. Workstation companies are also cutting costs by selling more through dealers rather than via direct-sales forces.

Just as critical will be better software. The big breakthrough in 1993 was an agreement by top suppliers to make their Unix versions look and work alike. Reaching out to Microsoft will help, too. Digital Equipment has licensed Window-

NT for its workstations and the chip in Hewlett-Packard's new workstation was designed to run PC programs—someday. Sun recently started selling software that operates Windows programs on Unix machines.

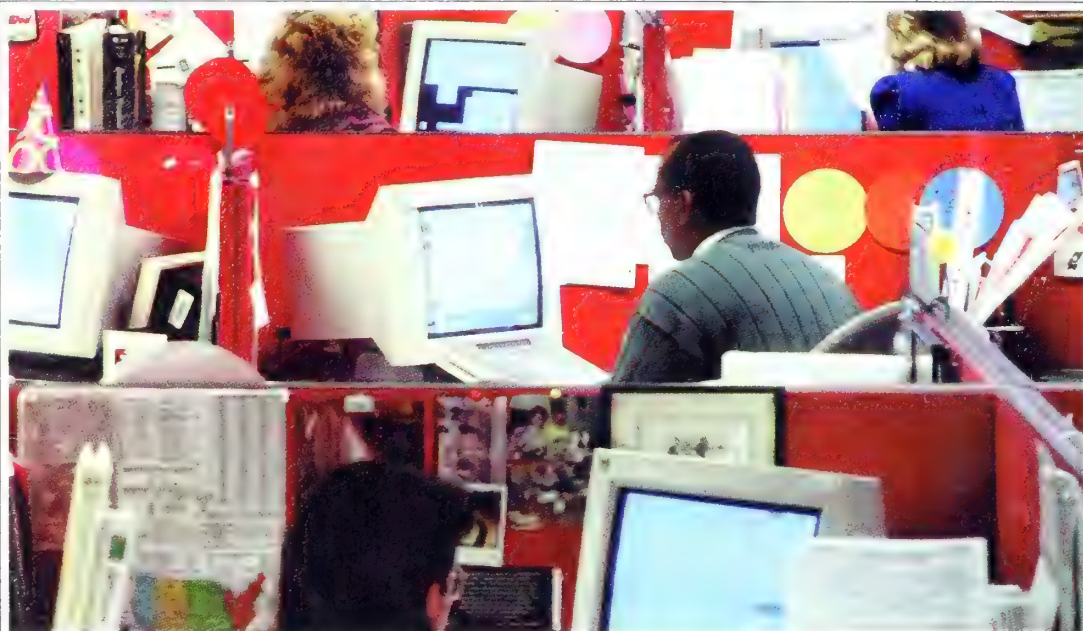
PC-PROOF? The best chance for workstation makers may be investing the fruits of their still-higher profit margins in new markets where personal computers can't easily follow. Promising ones include customer service and marketing data analysis—jobs that require powerful hardware and sophisticated programming. A

American Telephone & Telegraph Co.'s Universal Card Service unit in Jacksonville, Fla., 2,000 customer representatives now use Sun workstations to call up images of invoices and other information. "I still don't believe we can find the software we need of PCs," says AT&T Universal Vice-President Leslie Palmer.

But that window of opportunity won't last long. Unix software companies such as Objectivity Inc., which wrote programs for Sun, HP, DEC, IBM, and Silicon Graphics, are already hard at work on NT versions. Says Martin Sayer, manager of advanced system product planning for Dell Computer Corp.: "We're certainly going to make it tough on the classical workstation vendor. I believe this is the year."

For some customers, the collision of PCs and workstations is a nonevent. "We don't try to differentiate between PCs and workstations anymore," says Hugh Ryan, managing partner at systems integrator Andersen Consulting. Unless workstation makers can do that for him once more, their market may never heat up again.

By Robert D. Hof in San Francisco with Gary McWilliams in Boston and Peter Burrows in Dallas



WHERE SUN STILL SHINES: AT&T'S CREDIT-CARD CUSTOMER-SERVICES UNIT USES SUN WORKSTATIONS

That's quite an onslaught, but it may not be much against the wave of Pentiums. Intel expects to ship at least 6 million Pentium chips in 1994. The whole workstation market is just 600,000 units a year. And each of the Pentium machines can run all the software for existing PCs as well as Microsoft's Windows NT, an operating system with some of the features of Unix, the powerful software used to run workstations. Concedes Jay Puri, vice-president for product marketing at Sun's hardware unit: "It's going to be tough out there."

BRIGHT SPOTS. That doesn't mean workstations are headed for oblivion anytime soon. They still offer unbeatable performance for designing chips and running networks, for instance. By grabbing customers who are moving off mainframes and minicomputers—and stealing market share from workstation rivals—some suppliers are still growing fast. HP's workstation sales grew 24% and Silicon Graphics Inc.'s 29% last year. Even Sun, which was slowed by troubles producing a new chip, grew 12% in 1993. Dragging down the average: DEC, NeXT, Intergraph, Sony, and NEC.

The critical market for workstation makers now will be corporate number-

pects will dim considerably. Despite ambitions to conquer corporate desktops, workstation makers have made little progress, mainly because they failed to agree on a single version of the Unix operating system and a common "user interface"—without which they could not attract the masses of software available for the personal computer. Now, their

The best chance for
workstation makers may be
to invest in new markets
where PCs can't easily follow

best hope may be to hold the line against PCs. Says Summit Strategies analyst Thomas Kucharvy: "This is their last chance."

Part of the battle will be internal. Companies will need to cut costs as they slash prices to stay in line with the PC makers. Sun has led the way by sharing chip-development costs with partners Fujitsu and Texas Instruments and farm-



THIS IS AMONG 14 U-TEXAS TECHNO-MBAS (OUT OF 25) OFFERED JOBS LAST YEAR BY FEDEX

NOW COMES THE CORPORATE TRIATHLETE

MBAs who also have engineering and computer skills are red hot

It sounds like a typical business-school case study: Five students looking for ways to market an ultrasonic device that drives whales, dolphins, and seals away from fishing nets. But this exercise at Northwestern University's J. L. Kellogg School of Management last year was real business—and the marketing plan was just one of the team's challenges. The five—all headed for manufacturing—first designed, engineered, and built the \$20 machine, then tested and refined it in experiments with beluga whales at a Chicago aquarium. Now, they're trying to find a buyer.

At business schools from Wharton to Berkeley, a new kind of MBA is emerging: one with dirty—and sometimes wet—hands. By combining courses from engineering, computer science, and business schools into one curriculum, some of America's top universities are producing corporate triathletes.

These are managers made to order for the new horizontal corporation—people who not only understand the basics of marketing, accounting, and finance but also have a feel for computers and the

other technologies that help companies deliver their products or services.

Call them techno-MBAs. Right now, they number only about 3,000 of the 75,000 MBAs who graduate each year. But corporate recruiters are gobbling them up at such a rate that B-schools are rapidly adding computer and engineering courses to their core curriculums. "We're dissolving the boundaries

between marketing and manufacturing," says James I. Cash, chairman of Harvard University's MBA program.

Actually, engineers have long pursued MBAs—traditionally making up 15% to 25% of most B-school classes. But the schools always regarded engineering and business as separate disciplines. Now, they're bringing them together. Leading the movement are B-schools at universities with an engineering bent, such as Massachusetts Institute of Technology, Purdue, Carnegie Mellon, Rensselaer Polytechnic, and Lehigh. Many are mimicking big companies by putting students into the kind of cross-disciplinary teams that Chrysler Corp. used to develop its new Neon subcompact. At Chrysler, designers, engineers, and plant managers work hand in hand with colleagues from finance, marketing, and human resources. At Purdue's Krannert Graduate School of Management, students are put into similar multiskill groups to work on case studies.

STAGE FRIGHT. At the same time, business schools with high concentrations of engineers, such as Carnegie Mellon, are trying to give these students skills they'll need to move from the lab to the corner office. The theory is that students with "soft" skills, such as communications, often rise to the top, while those with only "hard" technical skills stay in the lab. "Technologists suffer from stage fright," says Robert Sullivan, dean of Carnegie Mellon University's Graduate School of Industrial Administration, where two-thirds of the students have science and technical backgrounds. "We would like them to take a leadership position." To this end, CMU is enlisting its Fine Arts Dept. to teach a new course this semester: Business Drama, a mixture of plays, comedy, and improvisation. Some 150 students—75% of the CMU business class—have signed up.

Plenty of mainstream programs, including those at Wharton, the University of Texas, Berkeley, and Stanford, are also infusing their B-school curriculums with engineering and computer courses. And they're finding that the new programs pay off in job offers. Recipients of Northwestern's three-year-old master of management in manufacturing get twice as many job offers—five per student—as regular MBAs from the Kellogg School. "Our placement rate was phenomenal," says Caleb Tower, a Kellogg student who helped develop the whale alarm and is now a manager of operations at Ban-



WHY TECHNO-MBAS?

- ▶ As companies go from vertical to horizontal, they want cross-disciplinary managers
- ▶ Techno-managers can help smooth the transition from mainframe to personal-computer systems
- ▶ B-schools, facing declining enrollments, are searching for more students—and finding them in engineering and computer science
- ▶ With pure research on the wane in the post-cold-war period, engineering schools are pushing students into business courses

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At Texas, where 25% of 400 new MBAs left school last spring without a job, the 25 graduates of the B-school's Informational Systems Management program averaged 3.5 offers each, most of them in the \$50,000 range. The ISM program "nailed it," says Bennett Smith, an ISM grad who now develops strategic information systems for Federal Express Corp. Next fall, Texas' B-school is planning to bring 100 more students into the technology loop.

The move to create techno-MBAs began in a 1986 meeting at the National Academy of Engineering in Washington. There, representatives of leading U.S. companies, including IBM, Boeing, and General Electric, met with academics to discuss Japanese inroads into U.S. markets. The problem, the executives complained, was that many recent MBAs didn't understand the high-tech products their employers made. Worse, they hadn't mastered computer technologies, from robots to e-mail, that were essential to operations. It became clear that

MIT plans an engineering and management degree that lets corporate hotshots work and study via interactive video

grads "needed a strategic understanding of technology as a source of competitive advantage," says Lehigh University professor Alden S. Bean, who attended the meeting.

CONVERTS. This idea got a boost in the early '90s, when the recession tarnished the glitter of an MBA and B-schools had to start scrounging for applicants. Meanwhile, U.S. companies were shrinking and restructuring. They were shopping for fewer MBAs—and looking for those with engineering and computer skills. "We kept hearing from recruiters that you have to break down the walls," says Mark Zupan, associate dean of masters programs at the University of Southern California. And engineering students needed a place to fit in. As the cold war ended, defense contractors and government labs shifted their focus from weapons development to defense conversion. Prospective engineers saw a sudden need to gain skills in such disciplines as marketing and finance.

Now, the challenge facing techno-MBA programs is to integrate business and technology more thoroughly. At the Rensselaer School of Management, pro-

fessors are combining marketing with new-product development and blending accounting with performance analysis, a key discipline in Japanese-style "continuous improvement." In designing these courses, teachers work closely with corporate executives, who view the programs—and their graduates—with near-proprietary interest. Among the companies Rensselaer works with, says Management School Dean Joseph G. Mone, are Pitney Bowes, General Electric Information Services, and computer-networking company Wellfleet Communications. Such allies are often headed by alumni, such as Wellfleet CEO Paul Severino. What he wants, he says, are technologists "who have a good idea of what business is all about."

INFORMATION EDGE. Many technology offerings focus on the computer, as a tool and as a market. Purdue, for example, offers a course exploring products and services that might be sold over Internet, the vast computer network. At Texas is focusing its program on the management of information services. As companies migrate from mainframe to desktop computers, they'll require a new generation of technologists with the business savvy to do the rewiring, says Timothy W. Ruefli, director of Texas' ISM program. Enhanced information processing is "where the productivity's going to come from," he says. Federal Express seems to agree: It offered jobs to 14 of Ruefli's 25 graduates last year.

The techno-MBA programs are such potential money-makers that B-schools want to expand the market with mid-career courses. But trimmed-down companies are reluctant to part with up-and-comers for long. So B-schools are going high tech. MIT is recruiting a handful of companies to enroll 10 students each in a new joint-degree program run by the Sloan School of Management and the School of Engineering. Except for short summer and winter sessions in Cambridge, the students would keep their jobs and work with professors and classmates via interactive video. Ultimately, Sloan School Dean Glen L. Urban sees a "worldwide network connecting students in Singapore, Seoul, and Washington." He imagines 10 Boeing Co. students, for example, collaborating with 10 from Toshiba Corp. on complex systems-design problems.

Such a program could well become a case study of how popular the techno-MBA will become. Texas' Ruefli calls his grads "agents of change." In the corporate world, that remains to be seen. In business schools, it's already true.

By Stephen Baker in Pittsburgh, with Gary McWilliams in Cambridge

WALKING THE TECHNOLOGY TIGHTROPE

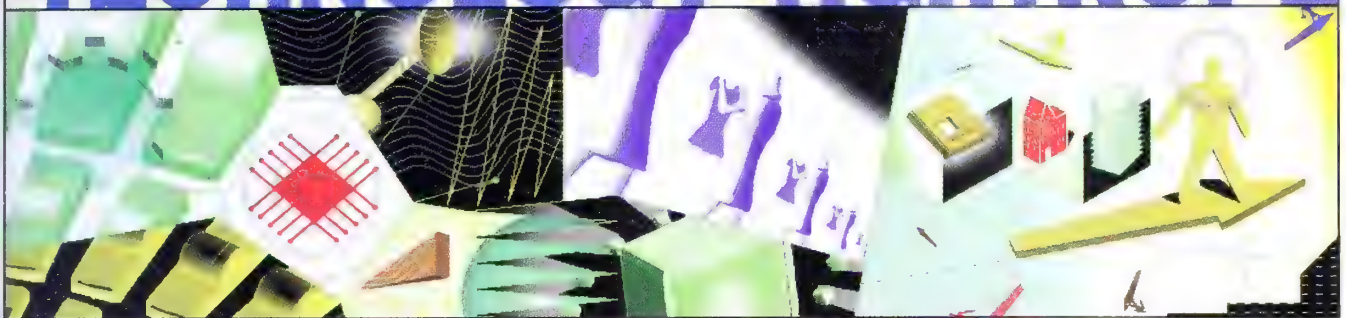


Illustration by John Hersey As seen in BusinessWeek, January 11, 1993 Issue

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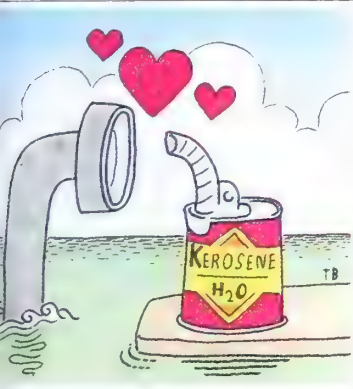


LEFT TO RIGHT:
ON TOUR magazine,
produced in association
with The PGA TOUR;
*Citibank Retirement
Guide for Small
Businesses*, a brochure
produced for Citibank.

Developments to Watch

EDITED BY PETER COY

FOR A SUBMARINE'S POWER PLANT, WHAT BETTER FUEL THAN H₂O?



cost no nitrous oxides, and costs 40% less to operate than burners fueled by heavy oil.

Econo-Tech's system puts water into a strong magnetic field and excites the molecules with ultrasound. Then, under pressure, a fuel such as kerosene is blended in, creating an emulsification of 52 parts water to 48 parts fuel. The water droplets are broken down into hydrogen and oxygen, and the oxygen feeds the fuel's combustion. Some of the oxygen so corrodes the combustion chamber, which has to be replaced twice a year. A working model burns roughly 10 gallons of fuel an hour, but Econo-Tech says it could be scaled up to a plant burning hundreds of thousands of gallons an hour.

MINI REACTORS NEUTRALIZE TOXIC WASTE ON-SITE

Heightened community concern in recent years about emissions from incinerators has spurred the search for other ways to process organic wastes, including PCBs, dioxin, and even illegal drugs. One method developed at Lawrence Livermore National Laboratory—called mediated electrochemical oxidation—may be an alternative. The weapons lab recently signed a \$4 million deal with startup EOSystems Inc. in Menlo Park, Calif., to commercialize the technology.

In the process, an electrical current is applied to a weak solution of an acid such as sulfuric acid. When organic wastes are added, they are oxidized into carbon dioxide, water, and other inert materials. The process works on-site at room temperature and ordinary pressure, saving transportation costs and reducing the chances of releases into the air. Depending on their size, the self-contained reactors can process from 20 pounds to a ton of waste per day. EOSystems expects to roll them in about two years.

DASH OF GERMANIUM DDS ZIP TO SILICON CHIPS

Silicon has always been slower than gallium arsenide. That's why gallium arsenide is used for high-frequency chips in, for example, cellular phones. But that's about to change. IBM has pioneered a way of combining silicon with germanium that produces a tenfold speedup—to 1 billion cycles per second—in a chip from Analog Devices Inc. The secret? Sandwiching a region of germanium atoms into the silicon creates an

electric slide of sorts that propels the electrons along their way.

Not only do the new chips consume less than a fifth of the power of gallium arsenide-based rivals, they will be cheaper to make, says IBM. That's because silicon-germanium chips can be made with the same equipment used for conventional chips. "We're leveraging \$100 billion worth of installed equipment," says IBM Fellow Bernard S. Meyerson, who notes that Big Blue has cut its own gallium-arsenide research drastically. The unveiling of a working, 3,000-transistor part puts IBM ahead of such competitors as NEC, Daimler Benz, and Texas Instruments, which have just gotten around to showing single circuits made of the material.

THIS JOYSTICK BRINGS NO JOY TO VIDEO-GAME GIANTS

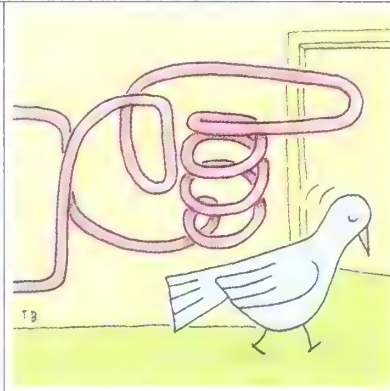
A small company in Albany, N.Y., is tweaking the noses of the twin giants of the video-game world with an unlicensed joystick it says will add realism to familiar video games. Triax Technologies says its Multi-Function joystick will let game makers create better versions of games made for the Sega Genesis and Super Nintendo Entertainment System, the two main 16-bit game machines. With the arcade-style joystick and new game cartridges, players will be able to vary the speed of game characters, move them at any angle, and also move them closer or farther away, instead of their being trapped in a single plane of motion.

Triax says some leading publishers of video games plan to enhance their games by adding software that will communicate with a chip in the Triax controller. Among them, it says, are Electronic Arts, Sunsoft, Tengen, and Namco. Nintendo and Sega tend to prefer that players use their controllers. But Triax says it isn't worried about legal challenges because its new chip doesn't interact with their machines, only with the game cartridges, which are made by independent companies. Says Nintendo spokeswoman Eileen Tanner: "These types of products come out all the time."

CLEANING UP LIGHT FOR LONG-DISTANCE FIBER OPTICS

Chirping is fine for birds, but it's annoying when it occurs in pulses of light over fiber-optic transmission systems. The reason: A "chirp" of light is made up of different wavelengths. Short ones travel faster than long ones. So, over 25 to 40 miles, the light pulses become smeared—making it impossible to distinguish the "ones" and "zeroes" of binary computer code.

Bell-Northern Research Ltd., part of Canada's Northern Telecom Ltd., has created a device that precompensates for chirp. That extends the useful transmission range of a light pulse to well over 60 miles. The research arm says the electronic shutter is made of semiconducting materials, so it's smaller and cheaper to manufacture than shutters made of substances such as lithium niobate. It's two to three years from mass production.



THE SMOKE CLEARS AT MARLBORO

Sales are creeping up, and a big marketing blitz is under way

Ralph Lauren, watch out. Philip Morris Cos. is staking a claim for Marlboro in the urban-cowboy fashion landscape. Sometime this spring, Philip Morris USA, the company's \$12 billion tobacco division, will roll out the Marlboro Country Store, a mail-order promotion that will enable smokers to exchange their empty Marlboro packs for Western wear such as boots, cowboy hats, belt buckles, denim shirts, and leather jackets, discreetly stenciled with the Marlboro brand logo.

Some deal, right? But it's even better for Philip Morris. The campaign is expected to build the company's data base of smokers and turn millions of Americans into walking Marlboro ads.

Whoa, there. Aren't brands supposed to be dead? That was the conventional wisdom in the wake of "Marlboro Friday" last Apr. 2. Then, Philip Morris announced it was slashing the price of Marlboros by 40¢ per pack to stanch the brand's market-share deterioration. Philip Morris' stock sank 14 points and pulled down the stocks of other consumer-goods companies. It became the biggest marketing story of 1993—a symbol of the vulnerability of big brands in the price-conscious, value-minded '90s. By yearend, analysts estimate, the strategy had cut Philip Morris' domestic tobacco unit's earnings by \$2.3 billion, to \$2.84 billion.

But nine months later, it's clear that as a market-share gambit, the price-cutting maneuver worked. Marlboro's share of the \$47 billion U.S. cigarette market, which fell to 20% before Marlboro Friday, has rebounded to 25%—higher than it has been since 1989 (chart). The stock, which cratered at 45, has crept back up to around 57.

Now, Philip Morris is embarking on Phase Two. Philip Morris executives declined to comment. But tobacco analysts, consultants, distributors, and sources familiar with the company say that Philip Morris is preparing a methodical offensive to secure the competitive gains it has made. It is stepping up consumer promotions such as Marlboro Country Store. It is working on a series of new products, including a shorter cigarette, dubbed the Marlboro Express, for time-pressed smokers. And observers also expect Philip Morris, which raised its cigarette prices by 4¢ per pack in November, to continue nudging up prices.

If Philip Morris can pull it off, Marlboro's managers will have proven that they can keep their brand strong—and begin to command premium prices once again—even in an era when consumer loyalty is waning. "I would not want to gloss over the degree of pain that it has taken to get here," says Marc Cohen, a tobacco analyst at Goldman, Sachs & Co. "But I think we're at a stage where Philip Morris can begin to build its brands again."

The architect of the plan is James J. Morgan, who took over as senior vice-president for marketing at Philip Morris USA in April after a three-year stint as vice-president for marketing planning at the parent company. A strong performance could catapult Morgan into position to succeed William I. Campbell as chief executive of Philip Morris USA. "From what we hear, Jim Morgan is really calling the shots over there," says Gary Black, a tobacco analyst at Sanford C. Bernstein & Co.

He'll have to make those shots count, because he's fighting with less ammo.

Thanks to the earnings drop, Black estimates, Morgan's \$1.1 billion 1994 promotional budget is \$500 million lower than last year's total. The \$400 million advertising budget is flat, Black says. It's a marked change from the 1980s when price hikes funded seemingly bottomless marketing war chests. "Philip Morris raised prices on Marlboro twice a year for 10 years, and those easy profit

WHEN PHILIP MORRIS SLASHED PRICES LAST SPRING, WALL STREET WAS HORRIFIED. BUT NINE MONTHS LATER, THE GAMBIT APPEARS TO HAVE WORKED

REIGNITING MARLBORO

PRICING Philip Morris uses price as an aggressive marketing tactic. Last spring, a 40¢-per-pack cut grabbed consumer attention, narrowed the gap with discount brands, and squeezed rivals. Step Two: The company is expected to nudge prices back up quietly this spring.

PROMOTION Relying less on broad-brush image ads, "Continuity" programs such as the Marlboro Adventure Team and the upcoming Country Store campaign—with their offers of Marlboro merchandise—build consumer loyalty and data bases.

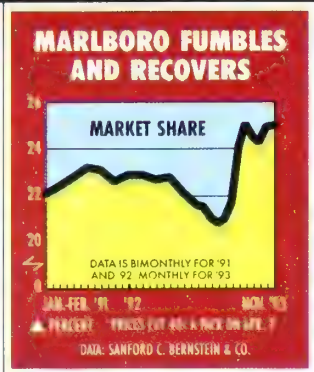
NEW PRODUCTS The shorter Express cigarette, aimed at the time-pressed and price-conscious, is being considered. Other options: cartons of loose cigarettes and roll-your-own smokes.

were able to mask their marketing inefficiencies," says Murray Hillman, president of the Strategy Workshop, a New York consulting firm.

A lot is riding on Marlboro's ability to do more with less. The brand accounted for 60% of Philip Morris USA's sales and 75% of its operating income in 1993. Largely because of Marlboro Friday, analysts estimate the parent company's worldwide operating income slipped to \$9.3 billion in 1993 from \$11 billion in 1992. In November, Philip Morris Co.

announced plans to eliminate 8% of its workforce—roughly 14,000 people—close 40 plants, and make a \$457 million charge against earnings. And the pain isn't over: Domestic tobacco's operating income may fall 10% in the first quarter of 1994, says Black. But cigarette volume should be up 1%, and he expects earnings to start to recover in the second quarter.

ALL 'EM. Morgan's strategy is to win consumers' loyalty with promotions such as Country Store while using new products to respond to the industry's new challenges. In anticipation of the Clinton administration's plans to raise excise taxes by up to 75¢ per pack in 1995, Philip Morris has considered roll-your-own cigarettes in the U.S.—because loose tobacco and rolling paper are taxed at a lower rate than cigarettes. Philip Morris already markets such a product



press is supposed to be a fast smoke so you can get a quick fix," says Rob Huberman, general manager at Starkman Distributors in Atlantic City, N.J.

Philip Morris won't comment on the status of Express, but an executive familiar with the project says advertising for Express has been created. One ad depicts

a horse running across the plains, conjuring up the Pony Express. Will Express make it to market? It's not a sure thing. Launching a new product could interfere with the existing Marlboro line's momentum. Still, "the advertising means it's a high priority," says the executive. Consultants believe smokers would be receptive. "How many times have I seen people in their office lobbies exhausting their cardiovascular systems trying to down a cigarette between breaks?" asks Jeffrey Hill, a managing

empty Marlboro packs, sent them to Philip Morris, and received free merchandise from a Marlboro catalog. For 130 packs, for instance, smokers could get a Weber charcoal grill. The program gave Philip Morris a data base of more than 2 million smokers.

Marlboro isn't the only smoke to benefit from Philip Morris' faith in premium brands. More advertising and promotions are also expected for Virginia Slims at the expense of Basic, Philip Morris' high-riding discount cigarette. Much of Basic's \$10 million ad budget will be shifted to Virginia Slims, says one insider. The reasoning: Premium-priced cigarettes, which start at \$1.90 per pack, are three times as profitable as discount smokes, at around \$1.35.

CAREER MOVES. In another move to shift smokers into premium-priced cigarettes, Philip Morris and R.J. Reynolds Tobacco Co. this month cut in half the 60¢ per carton they give tobacco wholesalers to push discount brands. And smokers barely seemed to notice when Philip Morris and its rivals raised prices by

4¢ per pack in November. A year ago, premium-priced cigarettes accounted for 61% of the domestic market; Black expects that figure to stand at 66% by the end of the first quarter. Analysts and tobacco distributors believe another price hike is imminent. That would bolster Philip Morris' earnings. The trick is to raise prices without undermining the company's efforts to position its cigarettes as good value—and without triggering a price war.

Morgan's career could depend on the outcome. At Philip Morris' Dec. 16 holiday party at New York's Metropolitan



ROUNDING THEM UP: MARLBORO IS OUT TO PROVE IT CAN KEEP ITS BRAND STRONG IN AN ERA OF WANING CONSUMER LOYALTY



Germany. It also has studied selling cigarettes loose in a carton, which could cut the price of a carton by roughly 60¢. Marlboro Express, the shorter smoke, would be about 15 millimeters shorter than a conventional 85-millimeter-long cigarette. A Philip Morris insider says the company has been considering this mini-cigarette as an option for people who must take quick smoking breaks while at work. The idea is to reduce the size of the cigarette but deliver the same amount of nicotine and tar. "Ex-

director at Meridian Consulting Group in Westport, Conn.

Just as Express would offer smokers the same nicotine fix in a smaller package, Marlboro's brand managers are viewing promotions as a way to get more bang from a smaller marketing budget. Country Store is slated to replace the Marlboro Adventure Team, which began in October, 1992, and ends in February. Adventure Team, a \$200 million direct-mail and ad effort, worked much like a catalog: Smokers saved up

Museum of Art, Michael H. Miles, Philip Morris' somber CEO, milled around, chatting amiably about the company's tobacco business. "He's normally not very personable," says one partygoer. "But he was very congenial, telling people how happy he was with Marlboro's increased share in convenience stores. It was his way of saying that even though he's a food guy, he's watching tobacco." It's a good bet Miles is watching Morgan pretty carefully, too.

By Laura Zinn in New York

JEFFREY KATZENBERG: NO MORE MR. TOUGH GUY?

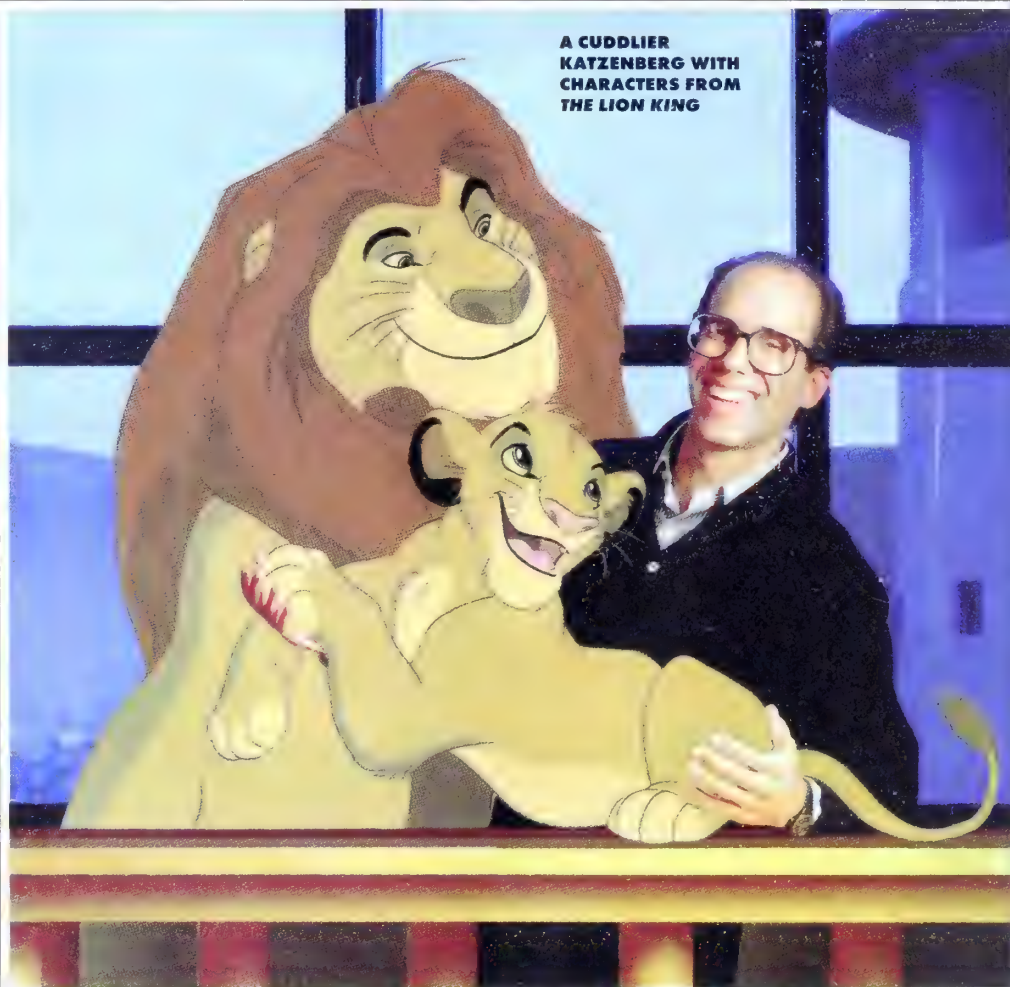
Suddenly, Disney Studios' tightfisted hardball player is lightening up—well, a little

It's lunchtime at Walt Disney Co., and Disney Studios Chairman Jeffrey Katzenberg has pulled out a long white note card covered in type and emblazoned with the smiling face of Mickey Mouse. Mickey, of course, is everywhere in the corporate dining room. He's grinning from the napkins. He's silhouetted on the chair backs. Reach for a pat of butter, and there he is again: a plateful of little yellow Mickeys, chilled but chipper.

Disney has always been slightly unsettling in this way. After all, the fun and games stop quickly enough when the doors shut on a contract negotiation or a movie deal. In the nine years since Katzenberg and his boss, Disney Chairman Michael D. Eisner, took over the slumbering company, Walt Disney has become notorious for its hardball tactics. As anyone in Hollywood can tell you, there's nothing Mickey Mouse about dealing with Team Disney.

NEW SPOTS? Lately, though, some of Mickey's jocularinity seems to have rubbed off on the 43-year-old Katzenberg. His customary tailored suits have been replaced by jeans and Reeboks. The note card, inscribed with his daily schedule, today includes a list of the "Top 10 Myths About Jeffrey Katzenberg"—the outgrowth of a reputation he'd very much like to debunk. No, he says, he never told employees, "if you don't come to work on Saturdays, don't bother to come in on Sunday." And no, he didn't have twins 10 years ago merely "to save time."

Is Jeffrey Katzenberg out to change his spots? Well, sort of. Having bulled his way to creating the most profitable



**A CUDDLIER
KATZENBERG WITH
CHARACTERS FROM
THE LION KING**

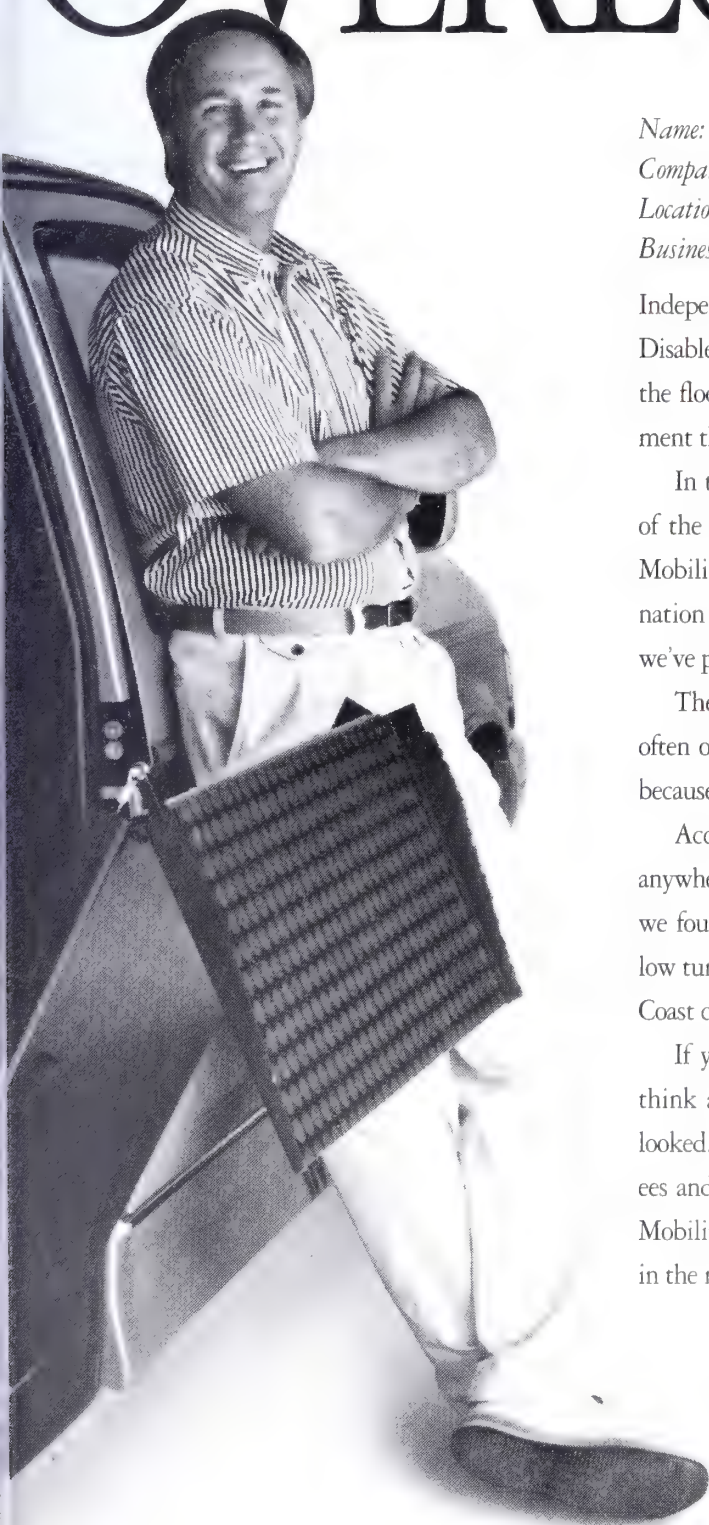
studio in Hollywood, Katzenberg is intent on projecting a mellowed, more conciliatory image. Part of the impulse, he insists, is personal—a '90s-style reclamation of his free time and family life. But don't be fooled: Katzenberg's self-styled renaissance is largely a business proposition. To keep Disney growing, the boss needs some help.

It boils down to how Eisner and Katzenberg view the future. While many media companies have flocked toward the "digital age" by forging alliances with cable television and telephone companies, Disney is focusing on producing as many films and television programs as it

can to fill the information pipeline. This year, plans call for 60 films, 37 more than in 1992. And total production costs—\$1.4 billion—represent a one-year commitment unprecedented in Hollywood (charts).

To get there, Katzenberg has had to moderate his near-maniacal, hands-on style. "This company is just too big," he says. "I have too many things to accomplish to be involved in every little project." Consequently, he has spent lavishly since 1991 to acquire the services of a slew of headstrong producers and directors. To woo them, he has had to grant them unprecedented freedom.

Not To Be OVERLOOKED



Name: Greg Anesi

Company: Independent Mobility Systems

Location: Farmington, New Mexico

Business: Minivan Conversions

Independent Mobility Systems converts minivans for use by the Disabled. It's a process that, among other things, involves lowering the floors of the minivans by 10 inches, a revolutionary improvement that allows the wheelchair user to easily access the vehicle.

In today's world often it's the accomplishments and initiatives of the little guy that go unnoticed. Greg Anesi's Independent Mobility Systems is the only minivan conversion company in the nation to employ an efficient assembly line approach. For this, we've presented him with an Overlooked Award.

The Overlooked Award was established by the state that's often overlooked by business—New Mexico. And that's too bad, because we've initiated all kinds of positive programs for business.

According to Anesi, "Capital and equipment can be bought anywhere—the trick to success is the labor force. In New Mexico we found an abundant labor force with a strong work ethic and low turnover—plus, lower labor costs than our Midwest and West Coast competitors."

If you're contemplating a corporate expansion or relocation, think about us. We're New Mexico, the state not to be overlooked. And oh, by the way, thanks to their New Mexico employees and the support of the Farmington community, Independent Mobility Systems now sells 5 out of every 10 converted minivans in the retail market today.

DON'T OVERLOOK NEW MEXICO



NEW MEXICO

AMERICA'S LAND OF ENCHANTMENT

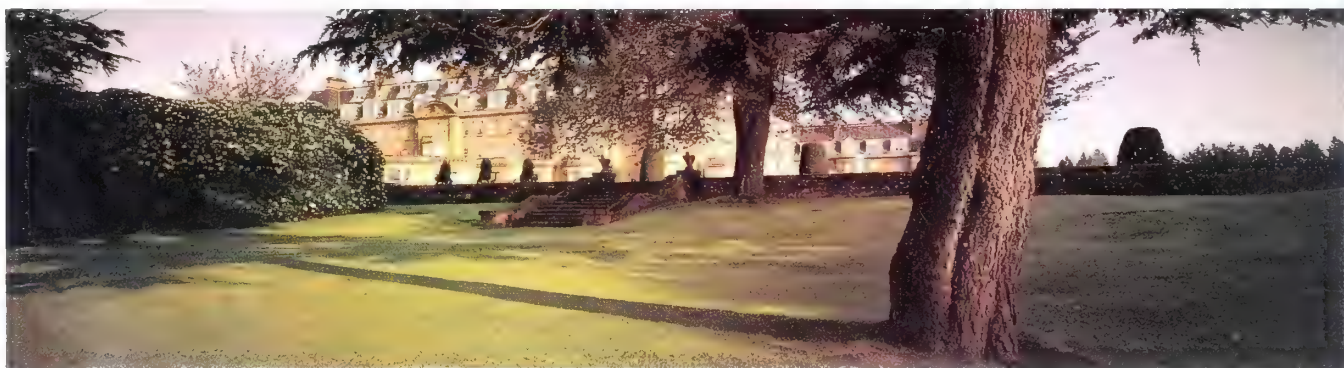
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Katzenberg still keeps a tight grip on Disney's exceptionally lucrative animation studio and its homegrown Disney units. But this year, almost 50% of the company's output will come from hired guns such as former Twentieth Century Fox executive Joe Roth, *Rambo* producer Andy Vajna, and Harvey Weinstein, whose Miramax Pictures distributes *The Frying Game* and *The Piano*. Vajna, known for his big-budget productions, omits no words about his new relationship with Katzenberg: "Jeffrey needs my films, so they leave me alone to make them."

ILLING PARK. The question is, will the new system preserve Disney studios' golden profitability? Since 1985, Katzenberg's micromanagement has expanded studio revenues from \$320 million to \$3.7 billion while increasing the profit margin from 11% to 17%. Movies and television shows now make up 36% of Walt Disney Co. operating earnings, up from 8% over the same time period. So far, production has ramped up profitably enough, at least with EuroDisney and the other theme parks growing slowly, the pressure on Disney Studios has never been greater.

Katzenberg's usual response to pressure is to handle everything himself. He learned as much in Barry Diller's Hollywood finishing school during the 1970s. Although he grew up the son of a Park Avenue stockbroker and attended private schools, Katzenberg dropped out of New York University after one year and hired

at Paramount Pictures Corp. in 1974. Here he quickly became a disciple of Diller, Paramount's hard-boiled chairman at the time.

Diller and Eisner, then Paramount's president, taught that ideas, not stars, are king. They regularly browbeat actors, directors, and writers to get the best deal, then insisted on total control to make sure the film they wanted got made. For his part, Katzenberg was

nicknamed the Golden Retriever for his ability to deliver the goods. When he and Eisner left for Disney in late 1984, they didn't lighten up.

Katzenberg has regularly waged battles over contract issues with such high-profile stars as *Sister Act*'s Whoopi Goldberg and *The Marrying Man*'s Kim Basinger. His run-ins with superagent Michael Ovitz are a Hollywood legend. In 1989, *Honey, I Shrunk the Kids* director Joe Johnson had the temerity to snub Katzenberg when the boss

voiced some concern over the extended use of a \$175,000-a-day set. Without warning, Katzenberg had the set ripped out, forcing Johnson to complete the film with existing footage.

These days, though, Katzenberg is discovering that he can ill afford to clamp down on everybody. When Robin Williams complained loudly last year that he wasn't paid enough for his role as the Genie in *Aladdin*, Katzenberg took the un-Disneylike approach of buying him a \$1.8 million Picasso painting. Williams still wasn't happy, but he stopped griping. "I realize I don't have to get the last nickel out of every deal," Katzenberg says. "If we pick the right people to make films, we're going to have more winners than losers."

In picking Roth, Vajna, and Weinstein, Katzenberg has hedged his bets. Vajna's films can cost \$40 million or more, for instance, but Disney pays no more than \$12 million, leaving the producer to round up the rest from other investors. Disney, in return, gets the theatrical, video, and other U.S. rights. Miramax, which Disney bought last year for an estimated \$60 million, is likewise capped at \$12 million, though Katzenberg does give some leeway. When Weinstein asked his new boss for an additional \$5.5 million to make *Pret-A-Porter*, a Robert Altman film about the fashion world starring Julia Roberts, Katzenberg didn't flinch. Why?

Weinstein is known in Hollywood for being as tough as Katzenberg.

The Disney boss isn't cutting any slack in the animation studios, however. Twice a week, he travels to the unit's cluster of nondescript buildings in Glendale to review such coming features as *The Lion King* scene by scene. In early December, a Broadway-bound stage version of *Beauty and the Beast* hit trouble, so he jetted to Houston each Sunday to iron out problems. Animation is fabulously profitable. *Beauty* has generated more than \$500 million for Disney in film, video, and licensing rights. Moreover, says Steven Spielberg, who was involved in Disney's 1988 hit, *Who Framed Roger Rabbit*: "Animation is one of the few areas that Jeffrey can still control totally. After all, the characters don't talk back, and the backgrounds don't ask for more money."

But some think Katzenberg is still stretched too thin. This past summer's lineup, which featured such flops as *My Boyfriend's Back* and *Fatherhood*, was lackluster at best. And while Disney ended 1993 with five straight \$50 million films—including Roth's *Three Musketeers* and Vajna's *Tombstone*—its Hollywood Pictures unit is a mess. Since 1989, only 11 of the unit's 26 films have grossed more than \$20 million. Many have raked in less than half that amount. In December, Katzenberg had to help Hollywood Pictures President Ricardo Mestres seal a long-stalled deal to have director Oliver Stone bring the Broadway musical *Evita* to the screen.

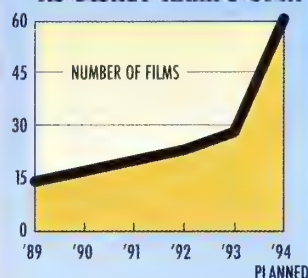
"MORE TO LIFE." Such problems don't leave much room for error among his new hires. And they don't leave Katzenberg much time for a personal life. That bothers him. The 1991 death of *Aladdin* lyricist and friend Howard Ashman affected him deeply. So did the divorce of Warner Bros. Chairman Bob Daly, a Malibu neighbor and buddy. To get away, he recently built a ski house in Utah, and has begun taking annual Mediterranean cruises with Marilyn, his wife of 19 years. "I think he suddenly realized there was more to life than working crazy hours and being away from those he loved," says record producer David Geffen, another longtime friend.

That's one reason he's not likely to join Barry Diller, who has dangled Katzenberg's name as a potential executive recruit as he tries to win backers for his hostile takeover attempt of Paramount Communications. Katzenberg insists he's going nowhere. Learning to give up some control at Disney is one thing. Sharing power with the irascible chairman of QVC is another.

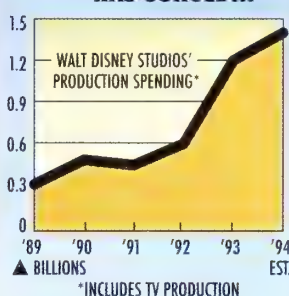
By Ronald Grover in Burbank, Calif.

CAN KATZENBERG KEEP UP THE PACE?

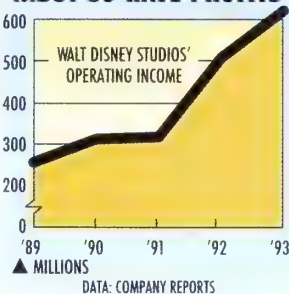
AS DISNEY RAMPS UP...



...PRODUCTION SPENDING HAS SURGED...



...BUT SO HAVE PROFITS





EDITED BY AMY DUNKIN

Electronics

VIDEO GAMES: THE NEXT GENERATION

Among the throngs of people cruising the Consumer Electronics Show in Las Vegas earlier this month, no less qualified a critic than Steven Spielberg checked out a *Jurassic Park* video game and other titles on Panasonic's new REAL 3DO game machine. The director of the celluloid version of *Jurassic Park* has more than a passing interest in the technology. "I'm a good consumer, so I'm interested in good game play," he says.

Spielberg might eagerly anticipate the next battle in the video-game wars, but legions of moms and dads dread the coming wave of multimedia

machines that hook up to the television. After all, the next game system their kids come begging for could take a dinosaur-size chunk out of their wallets.

While the market is becoming congested with new players, current video-game units from Sega and Nintendo that exploit 16-bit computer chips should continue to dominate well into next year. With both Sega Genesis and Super Nintendo now discounted in stores to around \$90, the purchase of an inexpensive 16-bit machine still makes sense for parents who have yet to satisfy their children's video-game demands.

For one thing, a multitude of compelling new 16-bit titles are being produced for these systems, including Sega's *Sonic The Hedgehog 3*, Nintendo's *Ken Griffey Jr. Presents: Major League Baseball*, and Acclaim Entertainment's *NBA Jam* for both platforms. Software publishers are also releasing new titles for handheld units, including Nintendo's Game Boy and Sega's Game Gear.

MOVIE MAGIC. Moreover, Sega's Genesis is expandable. You can add a compact-disk unit for \$229 to take advantage of some terrific new interactive Sega CD games, at \$60 each, such as *Tomcat Al-*

ley, an aerial-combat adventure, and *Prize Fighter*, which contains live-action boxing scenes directed by Ron Stein, who choreographed the fight sequences in *Rocky III* and *Raging Bull*. (This amateur video pugilist hit the canvas in a hurry.) No such CD add-on exists for Super Nintendo.

Sega has also just introduced CDX, a portable play that handles Genesis cartridges and Sega CD games as well as audio CDs. Price: \$400. As starting this fall, a kid playing Genesis will be able to compete against a buddy across the street with the Edge 1, an under-\$150 modem from American Telephone & Te-

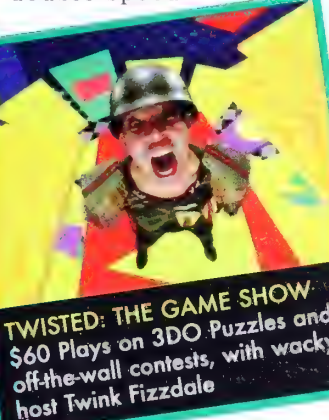
graph that connects two Genesis machines over the phone. But serious game players are already looking past 16-bit technology. The move to 32-bit chips, which are not only faster but more memory-efficient, will result in arcade games rich in color, detail, and action. Characters on 16-bit games often look fuzzy and cartoon-like. Thirty-two-bit games are much more fluid and three-dimensional. And when these powerful chips are coupled with a CD-ROM drive, you can add more realistic games with real-time action video sequences, including voice and digitized-soundtracks.

Indeed, most of the newer systems on the market will employ CDs instead of cartridges, providing massive storage capability (500 megabytes vs. about 3 megabytes per cartridge) that can be used to enhance game play. For example, the 3DO version of John Madden Football Electronic Arts includes supplementary footage from NFL Films. The CDs aren't perfect: inserting a disk for information can take an agonizingly long time, causing annoying pauses during play. Still, the industry strongly suggests a new based game world. "We're production on our last cartridge-based game," says television CEO Robert Lick.

LEADER HURDLES. But none of the latest machines may satisfy the instant-gratification world. All of the new game systems suffer from a chicken-and-egg problem: software developers are reluctant to commit to a platform because there isn't enough people using it yet. And consumers are loath to plunk down their dollars in the absence of "killer apps," or blockbuster applications, that rely on the system.

That problem has plagued the much-hyped 3DO, which uses its 32-bit Interactive Multiplayer technology to a number of vendors. Panasonic's \$699 REAL machine was the first 3DO player to hit the market. Sanyo Electric and AT&T versions should follow later in the year. The REAL machine has a built-in double-speed

CD-ROM drive and contains digital video technology that provides full-screen, full-motion images at up to 30 frames per second.



TWISTED: THE GAME SHOW \$60 Plays on 3DO Puzzles and off-the-wall contests, with wacky host Twink Fizzdale

But the REAL player sold poorly at Christmas. Just 18 titles were available at its launch, and developers say it takes 12 to 24 months to come up with strong titles on any new system. (Only now are decent Sega CD games coming out.)

Better 3DO games are on the way. Spectrum HoloByte is releasing Star Trek: The Next Generation. Other potentially strong games include Super Wing Com-



THE HORDE \$60 Plays on 3DO Kirk Cameron defends his medieval village from Piranhas and other Hordling species

mander, a space-combat game from ORIGIN Systems, and The Horde from Crystal Dynamics. In the latter, actor Kirk Cameron, as Chauncey, tries to protect his village against nine

species of "Hordlings"—vile and bumbling creatures who gobble up people, cows, and houses. Consumers who balk at current 3DO prices will find the cost of Pioneer Electronics' TV-based multimedia system even more objectionable. Pioneer's LaserActive entry is built around a stand-alone \$970 laser-disk player, which is good for watching movies or listening to audio CDs. With optional plug-in control packs, you can also play karaoke disks and existing Turbo Graphx DuoSoft and Sega game cartridges or CDs. But the karaoke pack costs \$350, and each game pack costs \$600—nearly double what you would pay for a Genesis and Sega CD system. In April, Sega software will also play on a new JVC entry called X'EYE, a \$500 machine that can handle special CD-ROMs and karaoke graphics disks.

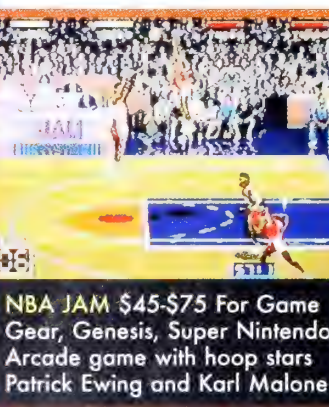
Other machines pose risky choices for consumers. Atari recently unleashed Jaguar, a 64-bit cartridge-based system priced at \$249; a \$200 Jaguar CD add-on is scheduled for release in April. The machine is a technical winner, with fast, smooth graphics and vivid colors. But Jaguar may be caged by Atari's tattered marketing history. Only four games are currently available, and some software developers confided that they are hesitant to produce games for the system.

In the past, reviewers have praised Commodore's Amiga computer as a strong game-playing machine. And Commodore's latest device, the \$399 Amiga CD³², is based on 32-bit technology. Yet, like Atari, Commodore hasn't been a strong marketer, and the company may have trouble drumming up software support. An earlier multimedia concoction that attaches to the television, called CDTV, failed to attract much interest in the U.S. Commodore claims that about 100 software titles (including some older CDTV selections) will be

available for CD³² once the machine starts appearing in U.S. stores around March.

Meanwhile, Philips Media has begun to reemphasize the game-playing capabilities of its two-year-old CD-I machines (for Compact Disc-interactive). Previously, Philips had heavily pushed educational programs for the \$399-to-\$499 CD-I. Now, new titles are on the way, including some that have appeared on other formats. One notable entry: Mad Dog McCree, an Old West gun-slinging adventure. Both CD-I and the Amiga CD³² may get a boost from \$250 digital video add-ons, though it may be too late for either to make much of a mark.

SECRET PLANS. As if to further muddle consumers' buying choices, Sony, Sega, and Nin-



NBA JAM \$45-\$75 For Game Gear, Genesis, Super Nintendo Arcade game with hoop stars Patrick Ewing and Karl Malone

tendo are working on their own advanced game machines. Nintendo won't say whether Project Reality, which the company is developing with Silicon Graphics, the company behind the special effects in *Jurassic Park*, will be a cartridge- or CD-based system. Sega's Saturn and a new game machine from Sony are expected to handle CDs. All three systems should hit the U.S. by 1995.

Of course, some consumers already own a great game machine without realizing it. As more-powerful IBM-type and Apple Macintosh PCs make it into homes, folks will discover that they can do a lot more than run spreadsheets. Indeed, it may be time to try using your PC to slay a dragon or practice your video jump shot. *Edward Baig*

Finances

SWATTING AWAY PESKY IRA FEES

To attract your retirement dollars, some mutual-fund companies and discount brokerages are dropping annual charges on individual retirement accounts. If you qualify for a tax-deductible IRA contribution and haven't made one for 1993, now is a good time to shop around: You have until Apr. 15 to open a new account and apply the tax benefit to your 1993 return.

Among the changes, T. Rowe Price and Vanguard recently eliminated \$10 annual fees for IRAs with more than \$5,000. Scudder, which formerly charged \$10 a year for accounts with less than \$3,000, eliminated all IRA fees. Dreyfus is waiving the \$10

fee on IRAs that invest in its International Equity or Growth & Income funds.

The charges don't amount to much, especially if you're rolling over a large sum from an employee pension plan or 401(k), but they are a nuisance. "It seems to be a real hot button with a lot of retirees," says Norman Chiodras, president of Retirement Planners in Oak Brook, Ill. He advises clients not to let fees dictate their decision. Flex-



ibility is most important in an IRA program, he says. For example, can you switch in and out of investments? Or are there other benefits, such as automatic deposit from your paycheck into an IRA?

Still, eliminating the fees is great for people who want to spread their IRAs among several fund groups, says Sheldon Jacobs, editor of the newsletter *No-Load Fund In-*

COMPARISON SHOPPING FOR IRAs

COMPANY	ANNUAL FEE	WAIVED IF MORE THAN:
SCUDDER	\$0	NA
FIDELITY*	\$10	\$5,000
VANGUARD	\$10	\$5,000
T. ROWE PRICE	\$10	\$5,000
CHARLES SCHWAB	\$22	\$10,000
MERRILL LYNCH	\$35	NA

*For Fidelity mutual fund IRAs only
NA=Not applicable

DATA: BUSINESS WEEK

vestor. Now you can have an IRA at Vanguard, start a new one at Scudder, and pay only the fund's underlying costs.

Another option is to go to a discount broker and mix

funds from several families into one account. Charles Schwab started promoting no-fee IRA for accounts larger than \$10,000 in April, 1993. For accounts smaller than \$10,000, Schwab charges \$22 a year. For similar programs, Jack White & Co. charges \$25 a year, and Quick & Reilly Group asks \$25 a year.

IN THE FAMILY. The only problem with no-fee IRAs is that you still have to pay transaction fees when you trade within your account. But Schwab and Fidelity Investments have new programs which you can trade no-load mutual funds for free if you choose a member fund family. At Fidelity, you won't pay a dollar transaction fees if you shelter more than \$5,000 through its FundsNetwork.

Full-service brokerages have yet to catch on to the trend and still charge hefty annual IRA fees. Merrill Lynch and Prudential Securities, for example, both levy \$35 a year. But if enough investors migrate to no-fee IRAs, maybe that will change. *Amey St...*

The recent announcement by Toys 'R' Us that it might repurchase \$1 billion of its own shares raises an interesting question: When a company starts buying up its own stock, does that mean you should, too? Not necessarily, say the pros. Although buybacks are generally bullish, they are not clear buy signals.

When companies accumulate their own shares, the price often rises as the pool of available stock shrinks. It can be a signal that management sees the company as a good investment. But companies repurchase shares for a host of reasons—not all of them positive.

FALSE ALARMS. In the 1980s, many buybacks were attempts to ward off takeovers, and more recently, ailing drug and consumer-goods companies have bought back stock to prop up the share price. Still others, such as Merrill Lynch, which an-

Smart Money

BUYBACK DOESN'T ALWAYS MEAN BUY

nounced a \$300 million buyback last month, are merely meeting employee stock-option and incentive obligations.

Another glitch is that companies often plan buybacks but don't follow through. "Af-

A better signal:
Stock purchases by
key employees

ter the '87 crash, myriad companies announced buybacks," says Bob Gabele, president of CDA/Investnet in Fort Lauderdale, Fla., which tracks insider stock ownership. "When the dust settled,

many never bought the shares they said they would."

Experts agree that you must know a company's fundamentals before news of a repurchase can be evaluated. Even then, "the buyback factor should only rarely come into the stock-selection process," says Lazlo Birinyi, whose Birinyi Associates tracks repurchases.

Bearing this in mind, there are clues to help you interpret buyback plans. "If insiders are buying, usually it's for the profit motive," says Gabele. "They think the stock will go up." But to use this information, which is available in data bases and periodicals, you must know if the stock is relatively low or

high. "Try to buy at the same price as the insiders," he says. "If it has moved up, be patient. There's always another bust." Toys 'R' Us announced at about \$39; the low for the past two years has been near 30.

RED FLAG. If they're selling, ask why. It may just be executives cashing in options. Other times, selling can tell you more than buying. "Managers tend to be optimistic about their own companies," says Richard Hoey, chief economist at Dreyfus. "Selling is more indicative of trouble brewing."

Look for "strong cash flow in relation to capital-expenditure needs and little or no debt," says Tulsa money manager Frederick Russell. For example, H&R Block plans a \$10 million buyback. Because it has lots of cash income and little overhead, he says, it clearly will be able to follow through. The issue is, will it? *Pam Blac...*

When airlines tighten frequent-flier rules, the howls are as loud as those against come-tax hikes or Social Security cuts. "Changing the programs is their right, but make these changes retroactive for miles we've already earned under the old rules is unfair," argues Hank Segal, a sales vice-president at a unit Maidenform in New York who logs about 75,000 air miles a year.

Unfair or not, it's about to happen anyway. United Airlines, American Airlines, and USAir recently announced hikes on the mileage needed for a free domestic ticket by 10,000 miles, to 25,000, early next year. United will tweak other award levels by Feb. 1. Northwest Airlines is expected to most mileage required for domestic and Asian travel this year. Delta Air Lines is reworking its plan, too.

Frequent-flier programs are shifting back toward their roots—as plans for people who really do fly frequently. Until 1989, major airlines required 35,000 miles for a free domestic ticket—double the level for some Continental Airlines freebies today. It's because of lower mileage requirements, mileage bonuses, and increased leisure travel in the past four years, even homemakers and retirees have come mile-counters.

THE MATH. USAir Vice-president Dan Brock says that "with all the ways to earn miles today—from mileage partners to credit cards—a 5,000-mile increase shouldn't be a problem for frequent fliers." But it will be rough for occasional or leisure travelers. Here's why: United or American, a traveler who normally flies

Travel

HOW FREQUENT FLIERS CAN STAY IN THE GAME

short hops that earn the 500-mile minimum would need an additional 10 flights to earn a free ticket under the higher requirement. In total, a member who accumulates mileage

of all awards are redeemed at the 20,000-mile level, this is a big change," says Randy Petersen, editor of the newsletter *Inside Flyer*.

Just ask Chicago attorney

Mike Wilczynski, who flies short hops on American about six times a year, taking several years to earn a ticket. The 22 million-member AAdvantage plan purges mileage if you don't amass enough to redeem a free ticket within three years. "So now," notes Wilczynski, "my miles may start expiring before I reach the higher level."

There are ways for savvy fliers to make the best of a bad situation. First, consider claiming free domestic tickets before the higher mileage levels kick in. If you belong to American Express' Membership Miles plan, whose miles can be applied to five airline programs, transfer enough mileage to USAir and Northwest to "top off" those accounts to today's lower award levels.

With planning, you can still buy time to take advantage of the old, lower mileage levels. For example, redeem American's AAdvantage miles for a travel voucher by Jan. 31, 1995. (Do it by Dec. 29, 1994, if you have miles expiring at the end of '94.)

The voucher must be exchanged for a ticket within a year, but that ticket is good for another 12 months. The travel date and destination on the ticket can be changed for \$25. So you can lock in the

20,000-mile level for travel through Jan. 31, 1997.

With all the changes, it may be time to reconsider which plan is best for you. USAir is retaining its 750-mile mileage minimum, allowing fliers who take short hops to earn freebies while flying one-third fewer flights than they would have to with American or United. Trans World Airlines and America West Airlines will continue to offer a 750-mile minimum and domestic tickets for only 20,000 miles—requiring almost half the flights of the Big Two. And for now, Continental and Southwest Airlines are retaining their more lucrative award schedules.

One thing's certain: Mileage-hungry travelers will have to scout for nonflight mileage sources, such as credit cards, car rentals, and hotels. For nondiscounted stays through Mar. 31, 1994, Radisson Hotels is offering triple mileage on five airlines, while stays at Hilton Hotels paid for with an American Express card earn double mileage on six carriers. Last month, American Telephone & Telegraph launched True Rewards, which gives five miles in any of three airline plans for every dollar spent on its long-distance service. In the end, there'll still be freebies, but only the most dedicated fliers will get them.

Jim Ellis



REINING IN THE FREEBIES

AIRLINE/ACTION	EFFECTIVE DATE
NORTHWEST Reducing minimum mileage credit by 33%; also withdrawing from American Express Membership Miles	Apr. 1, 1994
UNITED Raising miles needed for a free domestic coach ticket by 25%	Aug. 1, 1994
TWA Ending co-mileage agreement with American Airlines	Dec. 31, 1994
USAIR Boosting mileage for domestic coach award ticket by 25%	Jan. 1, 1995
AMERICAN Raising miles for domestic coach award by 25% and first class by 13%	Feb. 1, 1995

DATA: AIRLINES, BUSINESS WEEK

solely by flying will have to log 50 flights before earning a freebie. "The people who will be most affected will be the ones who fly once or twice a year. But since 87% to 90%

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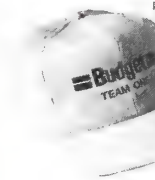
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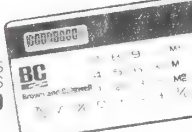
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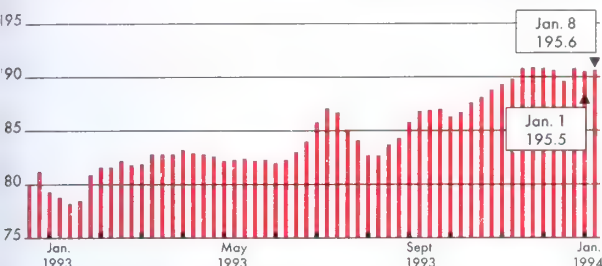
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BusinessWeek Index

PRODUCTION

Change from last week: 0.1%
Change from last year: 5.8%

1967=100 (four-week moving average)



The production index edged up slightly during the week ended Jan. 8. Truck and auto plants resumed production after holiday shutdowns, but seasonally adjusted output of steel, electric power, crude-oil refiners, coal, and lumber and rail-freight traffic all declined. Data for paper and paperboard were unavailable. Before calculation of the four-week moving average, the index dropped to 195, from 198 the previous week.

BW production index copyright 1994 by McGraw-Hill Inc

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/15) thous. of net tons	1,892	1,894#	7.2
TRUCKS (1/15) units	134,335	129,099r	12.4
TRUCKS (1/15) units	102,915	112,384r	8.5
ELECTRIC POWER (1/15) millions of kilowatt-hours	NA	61,394#	NA
CRUDE-OIL REFINING (1/15) thous. of bbl./day	NA	13,334#	NA
STEEL (1/8) thous. of net tons	18,311#	14,660	-0.3
PAPERBOARD (1/8) thous. of tons	NA#	NA	NA
PAPER (1/8) thous. of tons	NA#	NA	NA
LUMBER (1/8) millions of ft.	474.4#	342.3	9.0
RAIL FREIGHT (1/8) billions of ton-miles	19.8#	16.9	-3.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/19)	111	112	125
GERMAN MARK (1/19)	1.74	1.74	1.61
BRITISH POUND (1/19)	1.49	1.50	1.52
SWISS FRANC (1/19)	5.93	5.91	5.45
CANADIAN DOLLAR (1/19)	1.31	1.32	1.29
FRANC (1/19)	1.46	1.47	1.48
MEXICAN PESO (1/19) ³	3.106	3.116	3.103

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British and expressed in dollars

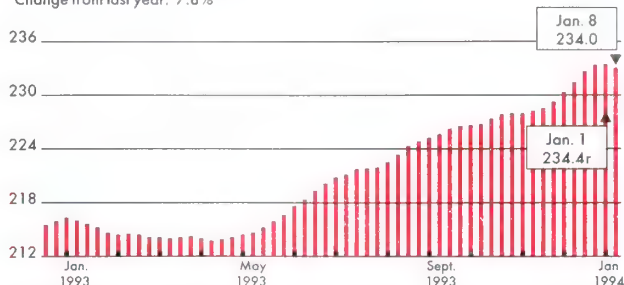
PRICES

	Latest week	Week ago	% Change year ago
WHEAT (1/19) \$/bushel	391.700	386.100	19.1
STEEL SCRAP (1/18) #1 heavy, \$/ton	139.50	140.00	40.2
WOODSTUFFS (1/17) index, 1967=100	222.0	218.6	9.3
COPPER (1/15) ¢/lb.	86.0	85.8	-18.3
ZINC (1/15) ¢/lb.	55.8	54.3	-1.2
LEAD (1/15) #2 hard, \$/bu.	4.09	3.97	3.8
IRON (1/15) strict low middling 1-1/16 in., ¢/lb.	64.68	64.48	19.4

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING

Change from last week: -0.2%
Change from last year: 7.8%



The leading index weakened slightly during the week ended Jan. 8, reflecting the nervousness in the financial markets. Lower stock prices and higher bond yields caused the decline. The growth rates for materials prices, real estate loans, and the M2 money supply improved. Data for business failures were unavailable for the latest week. Before calculation of the four-week moving average, the index rose to 234.1, from 233.4.

Leading index copyright 1994 by Center for International Business Cycle Research

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/14) S&P 500	474.19	467.38	9.4
CORPORATE BOND YIELD, Aaa (1/14)	6.87%	7.01%	-13.7
INDUSTRIAL MATERIALS PRICES (1/14)	94.9	94.8	-3.5
BUSINESS FAILURES (1/7)	NA	269	NA
REAL ESTATE LOANS (1/5) billions	\$421.5	\$421.2r	1.5
MONEY SUPPLY, M2 (1/3) billions	\$3,523.9	\$3,516.6r	2.0
INITIAL CLAIMS, UNEMPLOYMENT (1/1) thous.	355	293	3.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Dec.) total index	114.0	113.2	4.7
CAPACITY UTILIZATION (Dec.)	83.5%	83.0%	3.1
CONSUMER PRICE INDEX (Dec.)	145.8	145.8	2.7
PRODUCER PRICE INDEX (Dec.) finished goods	124.1	124.2	0.2

Sources: Federal Reserve, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/3)	\$1,132.9	\$1,134.2r	10.1
BANKS' BUSINESS LOANS (1/5)	280.6	278.6r	-0.7
FREE RESERVES (1/5)	1,121r	832r	0.4
NONFINANCIAL COMMERCIAL PAPER (1/5)	149.4	148.6r	3.9

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/18)	3.97%	2.97%	3.10%
PRIME (1/19)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (1/18)	3.19	3.18	3.21
CERTIFICATES OF DEPOSIT 3-MONTH (1/19)	3.12	3.13	3.17
EURODOLLAR 3-MONTH (1/14)	3.13	3.23	3.24

Sources: Federal Reserve, First Boston

1994 data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories 32
ABC 36
Acclaim Entertainment 80
Activision 80
Advanced Micro Devices 68
Astra Life & Casualty 28
Axiom Technology 41
Aluminum Co. of America 38
Amerasia Hess 14
American Airlines 38, 83
American Express 14, 83
America Online 6
America West Airlines 83
Amoco 50
Analog Devices 75
Andersen Consulting 69
A Pea in the Pod 8
Apple Computer 38, 68, 69
Arco 26, 28
Arthur Andersen 42
ASK Group 6
AT&T 6, 28, 32, 50, 68, 69, 80, 83
Atari 80
AZ Advisory 22

B

Bank of Credit & Commerce International 59
Bantam Doubleday Dell 71
Barbara Oil 31
Baxter International 38
Bear Stearns 22
Biogen 38
Biriny Associates 82
Black & Decker 14
Blackstone Group 66
Black & Veatch 66, 71
Booz Allen & Hamilton 41
Borden 6
British Telecommunications 28

C

Calvin Klein 38
C&L Communications 62
Cardiac Pacemakers 32
Caterpillar 64
CBS 36
CDA/Investnet 82
Challenger, Gray & Christmas 28
Charles Schwab 82
Chase Manhattan Bank 42
Chemical Bank 50
China Record Factory 42
Chrysler 64, 71
Circuit City 34
Cisco Systems 66
Columbia Healthcare 62
Comdisco 14
Commodore 80
Compression Laboratories 68
CompuServe 6
Continental Airlines 83
Coors Brewing
Challenger, Gray & Christmas 28
CoreStates Financial 50
Corning 50
Cowen 32
Cox Communications 62
Crabbe Huson Group 31
Crystal Dynamics 80
CS First Boston 22
Cyrix 68

D

Daimler Benz 75
Dataquest 69
Dell Computer 69
Deloitte & Touche 29
Delta Air Lines 83
Diana 62
Digital Equipment 38, 69
Dime Savings Bank 59
Dreyfus 82
DuPont 50, 69
DWG 14

E

Eastman Kodak 6, 69
Econo-Tech 75
Electronic Arts 75, 80
Electronic Data Systems 28
Eli Lilly 28, 32, 38
EOSystems 75
Evans Manufacturing 64

F

Federal Express 71
Fidelity Investments 60, 82
First American Bankshares 59
Ford 14, 30
Fox Broadcasting 36
Fujitsu 69

G

Gahtan Capital Management 62
Gazprom 49
GE 41, 71
Gemstar 62
GenCorp 41
General Electric Information Services 71
General Instrument 62, 68
Gillette 28
GM 6, 28, 31
Goldman Sachs 66, 76
Goldstar 62
Goodrich (B F) 14
GTE 28

H

H&R Block 82
Harnischfeger 64
Hewlett-Packard 38, 69
Hilton Hotels 83
Hollywood Pictures 78
Honeywell 54
Hudson Foods 14
Hybritech 32

I

IBM 28, 31, 54, 68, 69, 71, 75
ID Biomedical 60
IMC Fertilizer 6
Ingalls & Snyder 64
Intel 38, 68, 69
Intergraph 69
International Data 69
Invesco 60

J

Jack White 82
J.I. Case 64
John Deere 64
John Hancock Mutual Life 36
John Wanamaker 38
Jostens 6
JVC 80

K

KBLCOM 62
Kidder Peabody 62
Kirlaskar 66
LeTec 66
Lyndell Petrochemical 14

L

Macy (R.H.) 34, 38
Maidenform 83
Marriott International
Martin Marietta 38, 41
Massachusetts Financial Services 62
Matsushita 31
McDonnell Douglas 66
McGraw-Hill 24
MCN 14
Medtronic 32
Merrill Lynch 22, 82
Microsoft 68, 69
Miramax 78
Mitel 62
Mitsubishi Electric 62
Monsanto 50
Montgomery Ward 26, 34
Morgan Guaranty 22
Mothers Work 8
Motorola 30, 38, 50, 64, 68
Multibanco Mercantil

N

Namco 75
National Intergruop 6
Navistar 6
NBC 36
NEC 69, 75
New England Consulting Group 34
Newbridge Networks 62
NeXT 69
NFL 36
Nintendo 75, 80
Nissan 30
Northern Telecom 75
Northwest Airlines 83
Novell 68
NutraSweet 50, 54

O

Objectivity 69
Occidental Petroleum 59
Olin 41
ORIGIN Systems 80

P

Pacific Gas & Electric 50, 54
Pacific Telesis 28
Packard Bell 26
PaineWebber 36
Panasonic 34, 80
Paramount 38, 78
Patton, Boggs & Blow 59
Penn Traffic
Pfizer 42
Philip Morris 76
Philips 31
Philips Media 80
Physio-Control 32
PictureTel 68
Pioneer Electronics 80
Pitney Bowes 71
Price Waterhouse 29
Procter & Gamble 28, 38
Prodigy 6
Prudential Securities 82
Pulnam 60
QMS 6
Quick & Reilly Group 82
QVC 38, 78

R

Radio Shack 66
Radisson Hotels 83
Retirement Planners 82
R.J. Reynolds 76
Rochester Telephone 50

S

Salomon Brothers 26
Samsung 62
Sanford C. Bernstein 76
Sanyo Electric 80
Sci Systems 14
Scientific Atlanta 62
Scudder 82
Sears 34
Sega 75, 80
Service Industry Research Systems 34
Strategy Workshop 76
Silicon Graphics 68, 69, 80
Smith Barney 60
Snyder General 66
Software Publishing 6
Sony 31, 34, 69, 80
Southwest Airlines 83
Spectrum HoloByte 80
Spelling Entertainment 62
Standard & Poor's 31
Starkman Distributors 76
StarSight Telecast 62
Summit Strategies 69
Sun Microsystems 38, 69
Sunsoft 75
Synoptics Communications 68

T

Taco Bell 26
Tele-Communications 14
Tengen 75
Texas Industries 14, 69, 75
Thomson 31
Toshiba 71
Toyota 30
Toys 'R' Us 82
Triax Technologies 75
Tribune 62
T. Rowe Price 82
TWA 83

U

United Airlines 38, 50, 83
United Gaming 62
USAir 8, 83
USF&G 6
USX 6

V

Vanguard 82
Variety 14
Vector Securities 38
Viacom 38, 62
Vtel 68

W

Wal-Mart 34
Walt Disney 78
Wardley Holdings 42
Warnaco 38
Warner Brothers 78
Wellfleet Communications 71
Westinghouse 6, 31
Woodward & Lothrop 38

X

Xerox 28
XRG 42

Z

Zenith 6, 31, 62

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you give blood
you give
another
birthday,
another laugh,
another hug,
another
chance.



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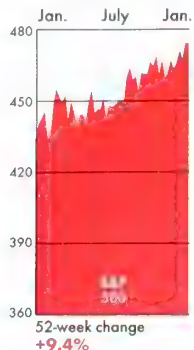


Investment Figures of the Week

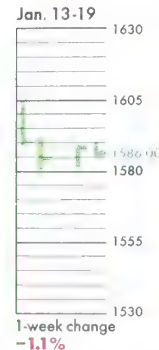
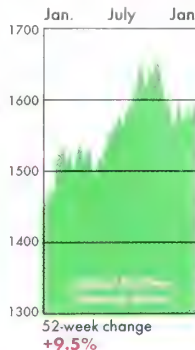
COMMENTARY

Stocks turned in a mixed performance this week. The Dow Jones industrials hit new highs again. But the broader-based S&P 500 index, hampered by earnings disappointments in some high-tech stocks, such as Intel, was unable to follow suit. Interest rates rose in response to a sharp increase in commodity prices—especially oil—and talk that the Federal Reserve was about to tighten. East Asian equity markets rebounded from recent profit-taking, while futures in London posted a new record.

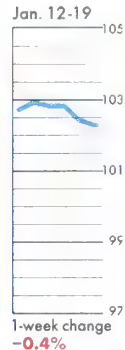
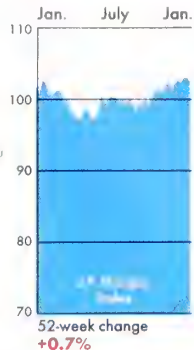
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change	
		Week	52-week
DOW JONES INDUSTRIALS	3884.4	0.9	19.8
S&P 500 COMPANIES (S&P MidCap Index)	179.7	0.3	11.2
S&P 500 COMPANIES (Russell 2000)	262.6	0.9	16.2
S&P 500 COMPANIES (Russell 3000)	273.5	0.0	9.6

FOREIGN STOCKS	Latest	% change (local currency)	
		Week	52-week
DOW JONES (FINANCIAL TIMES 100)	3475.1	3.1	26.4
DOW JONES (NIKKEI INDEX)	19,039.4	1.3	15.3
DOW JONES (TSE COMPOSITE)	4562.9	2.4	38.7

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.03%	3.02%	3.06%
30-YEAR TREASURY BOND YIELD	6.30%	6.18%	7.32%
S&P 500 DIVIDEND YIELD	2.60%	2.61%	2.90%
S&P 500 PRICE/EARNINGS RATIO	22.9	23.2	19.9

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	461.6	460.5	Positive
Stocks above 26-week moving average	57.1%	54.8%	Negative
Speculative sentiment: Put/call ratio	0.39	0.38	Neutral
Insider sentiment: Vickers sell/buy ratio	1.62	1.68	Positive

INDUSTRY GROUPS

4-WEEK LEADERS	% change	
	4-week	52-week
SEMICONDUCATORS	16.0	37.3
COMMUNICATIONS EQUIPMENT	13.8	3.6
AUTOMOBILES	12.9	66.3
HOTELS AND MOTELS	12.4	83.5
TOYS	11.4	-27.1

4-WEEK LAGGARDS	% change	
	4-week	52-week
GENERAL MERCHANDISE CHAINS	-6.2	-7.0
METAL AND GLASS CONTAINERS	-5.9	-4.9
REGIONAL TELEPHONE COMPANIES	-5.6	3.9
ELECTRIC POWER	-5.2	1.0
SPECIALTY RETAILERS	-5.2	-6.0

Strongest stock in group	% change		Price
	4-week	52-week	
NATIONAL SEMICONDUCTOR	23.9	57.6	18 1/8
DSC COMMUNICATIONS	19.2	203.3	69 3/4
CHRYSLER	16.0	71.8	62 1/2
PROMUS	15.7	187.2	53 1/2
NIKE	15.7	-39.4	51 1/8

Weakest stock in group	% change		Price
	4-week	52-week	
KMART	-7.6	-15.1	19 3/4
CROWN CORK & SEAL	-6.2	-4.1	37 3/4
BELL ATLANTIC	-11.0	5.6	54 1/8
TEXAS UTILITIES	-11.1	-8.2	39 1/8
BLOCKBUSTER ENTERTAINMENT	-9.7	40.3	27 7/8

MUTUAL FUNDS

LEADERS	4-week total return	%	LAGGARDS	4-week total return	%
PROGRESSIVE AGGRESSIVE GROWTH	12.6		GAM NORTH AMERICA	-27.5	
FERRILL LYNCH TECHNOLOGY B	12.6		ALLIANCE B	-6.2	
LIGMAN COMMUNICATIONS/INFORMATION A	12.0		FORUM INVESTORS STOCK	-5.9	

LEADERS	52-week total return	%	LAGGARDS	52-week total return	%
KINGSTON STRATEGIC INVESTMENTS	258.9		GAM NORTH AMERICA	-28.5	
IN ECK INTERNATIONAL INVESTORS	124.7		PILGRIM CORPORATE UTILITIES	-12.1	
UNITED SERVICES GOLD	123.9		FORUM INVESTORS STOCK	-10.8	



RELATIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in each portfolio	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
Percentages indicate daily total returns	\$14,039 +0.51%	\$12,171 -0.31%	\$11,975 +1.84%	\$11,172 +0.03%	\$10,211 +0.04%

Data on this page are as of market close Wednesday, Jan. 19, 1994, unless otherwise indicated. 7 groups include S&P 500 companies only; performance and share prices are as of market close.

Jan. 18. Mutual fund returns are as of Jan. 14. Relative portfolios are valued as of Jan. 18. A more detailed explanation of this page is available on request.

WHAT RUSSIA CAN LEARN FROM CHINA

China and Russia—two ex-communist giants struggling to transform huge centrally planned economies into market-driven societies. Yet China is growing at 13% annually, while the Russian economy is shrinking by 12% a year. China's currency is stable, while Russia's is plummeting. China's foreign investment is topping \$30 billion, while Russia's flight capital is hitting \$30 billion.

Why? In the great debate in Washington and Moscow over how much shock therapy to apply to Russia's economy, little intellectual weight is being given to China's experience on the road to capitalism. The Clinton Administration's Russian experts, led by Strobe Talbott, might benefit from a chat with Zhu Rongji, China's economic czar (page 42).

Zhu would probably give Talbott the following advice:

■ **Go for growth, not shock therapy.** Zhu would argue that Russia is floundering because it is attempting to privatize all its state-owned industries at once. Faced with enormous unemployment and social unrest, Moscow is printing rubles to keep what was the state sector afloat. But the resulting hyperinflation is sinking the economy anyway.

China, Zhu would say, is using another strategy. First, it opened its economy to foreign investors who built a huge export machine that now employs tens of millions of people who are moving over from declining state industries. Exports are also generating billions in revenues to support state companies without printing new renminbi.

After 15 years of export-led double-digit growth, Zhu would say that China now has the financial resources to go to stage two in 1994: Make all state enterprises market-driven. China is now getting Party functionaries out of day-to-day management and turning its industrial dinosaurs into joint-stock companies run by shareholders.

■ **Control the money supply.** Zhu would argue that economic reform is useless unless there is political control over the

Central Bank. Russia's transition is in trouble because the reformers can't stop the printing of billions of rubles a month. The Central Bank is run by Viktor Gerashchenko, who supports the state, not the private, sector and supplies huge amounts of credit to keep it afloat. The result? Inflation running at about 20% a month and a ruble down from 100 to 1 dollar in 1992 to 1,700.

In China, Zhu, as head of the People's Bank of China, has clamped down hard on credit. Now he is building a U.S.-style banking system with a strong central bank, a network of commercial banks and a money market. China has \$40 billion in foreign exchange reserves, the inflation rate is 12% a year, and the renminbi is worth 8.7 to the dollar.

■ **Get the military on board.** Zhu would argue that giving powerful elite groups, especially the military, a stake in the new market economy is essential. In Russia the nationalists have their own agenda—rebuilding the old Soviet empire.

For the past year, the military, the central bank, and parts of the government have used carrot and stick to persuade Georgia, Azerbaijan, Uzbekistan, Turkmenistan, and Belarus to move back under Russia's influence. Ukraine will probably be next. But empire building has its costs. Leading Russian reformer Yegor Gaidar quit the Yeltsin government recently because the central bank will have to print \$1.4 billion worth of rubles for Belarus. That's the amount of loans the Russia is currently seeking from the International Monetary Fund. China's People's Liberation Army, in contrast, is busy running its own factories and exporting goods to the West.

Of course, one must take Zhu's advice in context. China is an authoritarian dictatorship while Russia has become a raucous democracy, making it harder for the reformers to move it toward a market economy. But move they must, and the Chinese model just may have more to offer them than either Washington or the IMF. Calling Zhu Rongji...

DIVERSITY AND WHITE MEN

Every manager who hires, promotes, and fires will soon confront the issue of diversity—if he or she hasn't already. To be blunt, managers need to train and promote women and minorities. Why? Partly to redress historic patterns of discrimination, partly to comply with equal opportunity mandates, and partly because it is good business. The basic fact is that the composition of the U.S. population is changing rapidly. That means a different labor force and a different customer base.

Yet managing diversity can be hell. In a world of fast economic growth, there would be jobs for all. But with downsizing, choices become tough and casualties tend to be white males. To those brought up believing that discrimination of any kind is bad, affirmative action and the reverse discrimination it implies is ethically troubling.

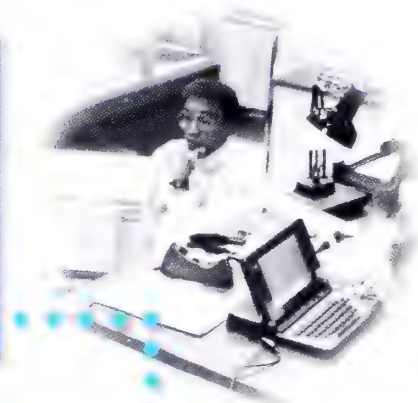
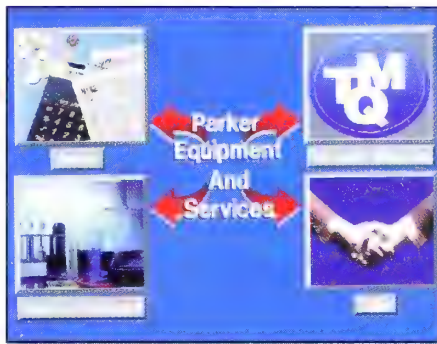
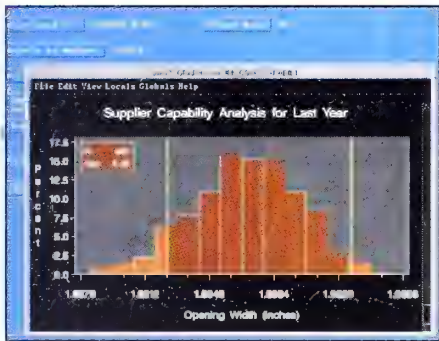
And if there is discrimination against white men, it's hardly surprising to see white male backlash. What can managers do? First, bring white males into the process, explaining the contacts, friendships, and school ties that lubricated their business careers aren't always available to women and minorities, who need an extra boost.

Second, reassure white males that they have a future with the company. One lost promotion can be made up in the future. The worst thing that companies can do is have diversity training programs that blame white men personally for the historical ills of society. That route will only alienate and anger them.

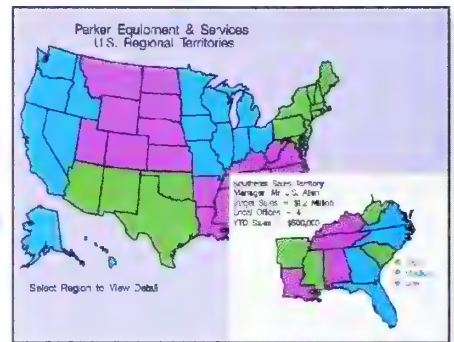
If diversity is important—and it is—then companies must institute training programs that make a difficult and morally ambiguous task a little less daunting.

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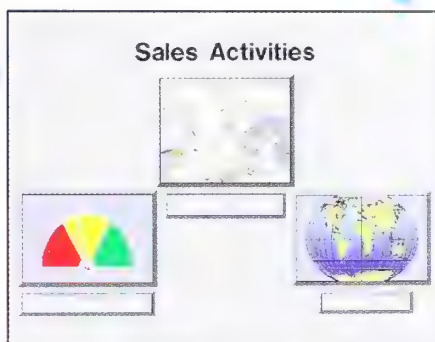


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February 7
BusinessWeek

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WHAT IT MEANS TO CONSUMERS

PAGE 92

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Motor Trend's 1994 Import Car of the Year.
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of the rest.





SATISFIED IN NEW JERSEY: THE SHORTINO FAMILY IS TYPICAL OF MANY AMERICANS—THEY LIKE TO LEASE

Cover Story

92 LEASING FEVER

More and more folks simply aren't buying what they drive. By the end of the decade, some auto executives predict, half of all cars and trucks will be leased. For consumers, leasing cuts the size of payments, making monthly auto bills more bearable and fancier cars more accessible. Auto makers and dealers have discovered a potent marketing tool—and the car business will never be the same

97 WHEN LEASING MAKES SENSE

Here's the arithmetic

Top of the News

26 HOLLYWOOD CLIFF-HANGER

Will Edgar Bronfman go to war for Tin & Warner?

28 CLINTON'S RISKY MIDDLE ROAD

His "talk Republican, govern Democratic" strategy could backfire

29 PERRY OPENS UP JAPAN

The Defense Secretary-designate is reversing the technology flow

30 PROFITS ARE UP, RIGHT?

Reading between the fourth quarter's bottom lines

30 HAGGAR'S NO-IRON RIVALS

Other menswear makers want a share of the wrinkle-free market

32 A MINIRETREAT AT DEC

It's backing off the "minicompanies" strategy that led to major losses

33 HELL-BENT FOR LEATHER?

On its uppers for a decade, U.S. Shoe seems headed for a turnaround

34 TEDDY'S BUGBEAR?

Romney challenges Senator Kennedy

35 19! 95! HIKE!

The NFL's new World League

35 BLOCKBUSTER, THE PARK?

Huizenga's grand Florida design

36 IN BUSINESS THIS WEEK

Natural gas, Bethlehem blues, Kodak's Funtime, an SEC market plan, power sitcoms, the Fed

International Business

42 RUSSIA

Chernomyrdin & Co. are playing a risky game

43 GERMANY

Siemens starts to look more like a chipmaker than a computer company

44 FRANCE

Is LVMH's Arnault eyeing L'Oréal?

46 INTERNATIONAL OUTLOOK

South Africa: Paving the fragile road to economic parity

Economic Analysis

18 ECONOMIC VIEWPOINT

Dornbusch: Why throw good money after bad rubles?

20 ECONOMIC TRENDS

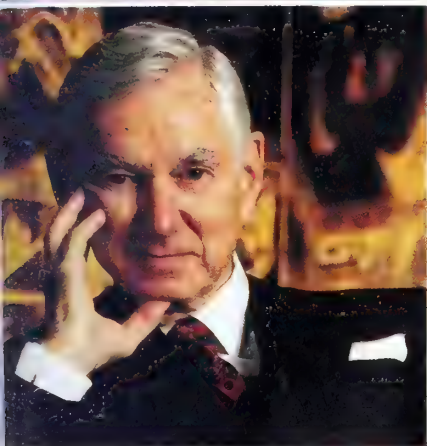
Junking clunkers, German taxes, minimum-wage hikes, U.S. exports

23 BUSINESS OUTLOOK

The cold won't stall this recovery

114 THE RUSH TO ROLL BACK TAXES

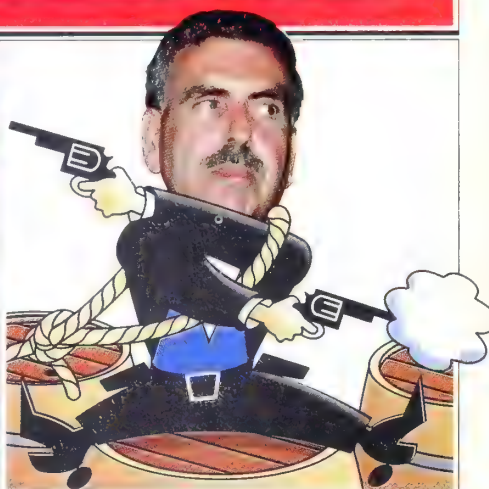
Why are state cuts back in vogue? They boost growth and add jobs



116 DOLE'S STUNTED HARVEST:
ITS REAL ESTATE IS VALUED AT \$750
MILLION—BUT ITS DEVELOPMENTS,
INCLUDING A LAVISH RESORT IN
HAWAII, HAVE FLOUNDERED BADLY



30 FIGURING THE FOURTH QUARTER:
FREAKISH RESULTS BY OIL
COMPANIES, THE BABY BELLS, AND
IBM MAKE ANALYSIS OF PROFITS
TRICKY. BUT THEY, AND SALES, ARE UP



26 SHOOTOUT AT TIME WARNER?
CEO GERALD LEVIN'S POISON PILL HAS
EDGAR BRONFMAN REACHING FOR HIS
SIX-SHOOTER. HE MAY SETTLE FOR A
BOARD SEAT—OR OPEN FIRE

Government

41 WASHINGTON OUTLOOK
Why Greenspan is getting an itchy
trigger finger

Marketing

89 MARKETING-DATA MAVENS
Zip Code seer Claritas upgrades its
guide to consumer buying habits

Science & Technology

98 CAN YOU CLONE A GREENBACK?
Too many biotech companies are
diving into the same pool of capital

00 DEVELOPMENTS TO WATCH
Gas heat, cancer hope, tighter data,
factory tips, steadier microsurgery

Finance

02 FIGGIE FEELS THE HEAT
The conglomerate is short on cash,
and critics blame Harry Figgie

04 THE GREAT OPTIONS COMEBACK
Helped by a crop of new products,
they don't look so scary anymore

05 KNIGHT TIME
Nomura's Nick Knight has been
roiling markets with well-timed calls

06 BRAZILIAN CRAPSHOOT?
Investors may be ignoring the risks
in the state of Minas Gerais

06 A DIVORCE MADE IN HEAVEN
AmEx and Lehman Brothers head
for Splitsville

107 INSIDE WALL STREET

He's not afraid of a 4000 Dow
Swimming with the salmon
A parent unties the apron strings

129 INVESTMENT FIGURES OF THE WEEK

Information Processing

108 INTERACTIVE ON-RAMPS

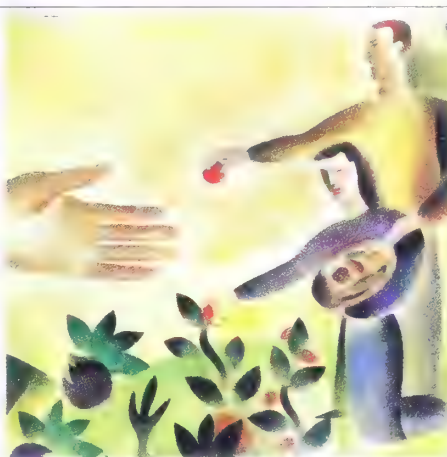
On-line services are getting jammed
with bumper-to-bumper traffic

109 PUTTING THE COUCH ON LINE

Prodigy TV aims for the modemless

110 IBM LEANS ON ITS SALES FORCE

Now, more pay is tied to profits



120 TACKLING THOSE TEDIOUS OL' TAXES:
IT'S THAT MOST DREADFUL TIME OF
THE YEAR WHEN ONLY A CALCULATOR
AND GOOD ADVICE STAND BETWEEN
YOU AND THE IRS. HERE'S THE ADVICE

Legal Affairs

112 MONKEY SEE, MONKEY SUE
Well-publicized settlements are
spurring bandwagon lawsuits

The Corporation

116 FROM PINEAPPLES TO LEMONS
Dole Foods' efforts to wring profits
from real estate have fizzled

118 TRACTORS ON THE FAST TRACK
Why AGCO is impressing Wall Street

Personal Business

120 SPECIAL REPORT ON YOUR TAXES
Twists and turns in the '93 hikes
For fast refunds, file electronically
Frequent fliers vs. the IRS
Defanging the AMT

Features

6 UP FRONT

14 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

15 BOOKS

Overholt: *The Rise of China*

127 BUSINESS WEEK INDEX

128 INDEX TO COMPANIES

130 EDITORIALS

Cut taxes—and cut government, too
Let's nail down some trade numbers
Clinton: Ready to deal on health

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER



STEINHARDT: Resourceful

DEALMAKERS

PICKING UP INTEGRATED'S PIECES

Michael Steinhardt, the New York financier, is about to clinch a pretty sweet deal: taking over Chapter 11-mired Integrated Resources so he can liquidate its assets—chiefly its rich trove of rights to rental income from prime office buildings. That means potentially doubling his money in two or three years for a net gain of \$24 million. And Steinhardt picks up his 12% stake at a discount of more than one-tenth off the current market price for securities of

the Manhattan-based financial services company.

According to legal documents, Steinhardt has just struck an agreement with creditors' advisors to assume control, pending expected approvals by a judge and a debtholder vote. He bests the Pritzker family of Chicago and Integrated's management, whose offers the creditors' advisors felt were burdened with greater tax liabilities.

The one possible hitch is 50 lawsuits filed by limited partners in Integrated Resources real estate partnerships that turned sour. Steinhardt's associates, however, have convinced the plaintiffs' lawyer, Herbert Biegle, to urge his clients to accept a settlement that could total \$18 million in cash, plus other considerations. □

PROPERTY CASUALTIES

ANOTHER DEVELOPER IS RUN TO GROUND

New York developer Harry Macklowe has been accused of missing debt payments, and lenders are livid. And you figured the big-time real estate pratfalls, à la the Reichmanns, were over.

Macklowe in 1992 had to restructure \$13 million in loans. Not good enough. His lenders

TALK SHOW

It was a workmanlike speech, but it was interminable. The law of diminishing returns sets in after 45 minutes.

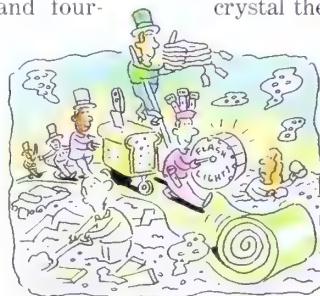
—Representative Henry Hyde (R-Ill.), after Bill Clinton's 63-minute State of the Union address on Jan. 25

L.A. STORIES

'\$10 FOR WATER! WHAT'S THE CATCH?'

Earthquake entrepreneurs are out in force in shaken Los Angeles, not all of them motivated by the angels.

Reports of water sold for \$10 a gallon and four-packs of batteries for \$25 are under investigation by the district attorney's office. A plumber charged one woman \$850 for a half-hour's work, says head deputy D.A. Thomas Papageorge. Try out this outrage: One contractor charged \$1,000 for a roof repair that another worker did for \$50. Southland says it will



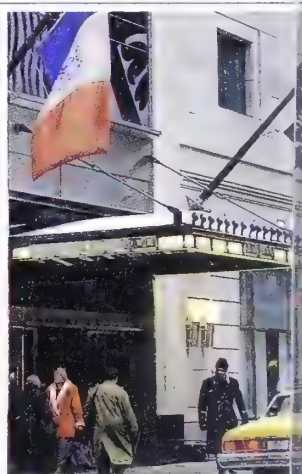
withdraw 7-Eleven franchises from eight stores that allegedly took too big a gulp from customers.

Most business folk, though, are trying to build goodbyes. Department store Robinsons May will skip finance charges for two years if customers place their broken china and crystal there. Alamo Rent

A-Car gives residents hard-hit areas a special \$1-a-day rate on its economy car, at 27% of their normal rate.

Referenced to the tempests abound in ads, many on the goofy side. Take electronic chain Affordable Portables, which advertises its cellular telephones as "earth-shattering specials." Ronald Gro

Macklowe's empire is shrinking in another way: After losing his largest tenant at the Ninth Avenue office building, brokers say, he sold it for an estimated \$30 million.



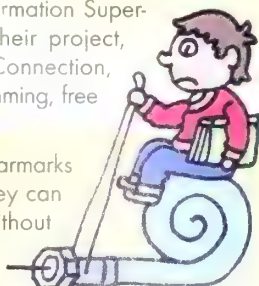
MARQUEE VALUE: The Macklowe

That's not all: Bank sources say he's missed payments on the \$100 million-plus mortgage for his namesake Harry Macklowe, off Times Square. Macklowe did not respond to calls and his lawyer declined comment. Suzanne Wood

REALITY CHECK

BELL ATLANTIC AND TCI SAY they will connect 26,000 elementary and secondary schools nationwide to the Information Superhighway within five years. Their project, called the Basic Education Connection, will include free cable programming, free

access to data services, and free connections to the Internet, letting kids chat electronically with others. Bell Atlantic and Tele-Communications Inc., which plan to merge, say their plan signals the enormous educational potential of the superhighway.



IN REALITY, this has the earmarks of clever PR meant to show they can deliver electronic altruism without government prodding. Phone and cable companies worry about being burdened with "universal service" rules forcing them to subsidize Info Highway connections for low-income residents. Trouble is,

it'll take longer than billed to hook up schools in poor and rural areas, which most need an educational boost. The five-year building timetable is too optimistic: A Deloitte & Touche study says only 40% of U.S. households will be connected by 2000. Bell Atlantic and TCI will surely target affluent suburban areas first. Bart Ziegler

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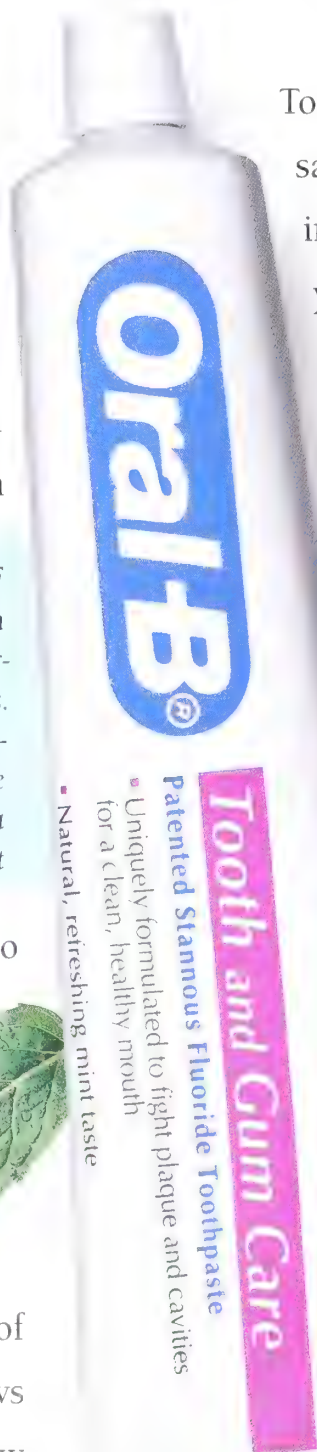
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Look for Tooth and Gum Care wherever you find Oral-B. Like all our products, it's designed to work with you, your dentist and your hygienist to help you keep your teeth for life.



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Introducing Tooth and Gum Care Toothpaste.

Up Front

SERGE BLUES

LEAVE THE MUUMUU AT HOME

So the casual look has come to Corporate America, right? Maybe not as much as you'd think. According to a new poll by the Gallup Or-

CORPORATE AMERICA'S SARTORIAL RULES

A strict dress code 21%

Slack, skirt/relaxed 22%

A relaxed dress code 31%

No dress code 25%

ganization for Accountants on Call, a Saddle Brook (N.J.) placement firm, 74% of the 750 employees surveyed nationwide work for outfits hav-

ing some kind of dress code—with 21% saying it's a strict one and 22% that it's a combination of strict and relaxed.

Now, there are no data from the past to see how dress-up demands have evolved. And many of the codes aren't actually written down anywhere. But it's a good bet that, at many companies, there always will be some demand for high sartorial standards. The buttoned-down places that have loosened a bit have only done so in certain areas.

Consider IBM, which once set the standard for clothing correctness: a dark suit, white dress shirt, and subdued tie for men. At its Somers (N.Y.) PC headquarters, there are so many sweaters that the place looks like a ski lodge. But at corporate HQ in Armonk, N.Y., it's still Suit City, as if nothing had ever changed. □

NEOLOGY LOG

STRESSED-OUT DWEBBS: THIS IS YOUR YEAR

Quick. What do "supercomputer" and "dweeb" have in common? True, they both sit in a cold room and run programs all day, but both words also have the distinction of finally making it into Merriam-Webster's recently released 10th edition Collegiate Dictionary.

Supercomputers have been around for a couple of decades, so why did it take so long for the word to make it into the dictionary? "We're trying to record language as it appears in popular speech," says James Loefer, senior editor at Merriam-Webster, whose dictionary is updated every year. "We record a word's incidence

in print, and sometimes that takes longer than you would think."

Apparently so. Other words that made the 10th edition: "boom box," "baby bust," "politically correct," "Minoxidil," "stressed out," "voice mail," "automated teller machine," and "support group." Oh, yeah. "Attention deficit disorder," too. What's coming up for inclusion in the next year's update? "Mountain bike," "open mike," and "cafe latte." At this rate, the Information Superhighway will have been long-established—and buzzing with new words—before it shows up in the dictionary. □



FOOTNOTES

Sales increases, 1993 over prior year: apparel, 1.9%; groceries, 2.4%; furniture, 10.7%; autos, 12.4%

DRAWN AND QUARTERED

IT SAYS, "BEWARE ALL YE WHO ENTER HERE, THE CURSE OF THE CAPITAL CRITICS." HOW 'BOUT THAT BOBBY? ... BOBBY?



SLUGFESTS

TEMPEST IN A CRACKER BARREL

Some three years after touching off a fracas over its employment policies toward gays, Cracker Barrel Old Country Store is still battling. In 1991, the Lebanon (Tenn.) restaurant chain fired 11 workers it accused of homosexuality, saying the employees' sexual orientation didn't fit with Cracker Barrel's stance on family values. But then a \$24 billion public pension fund, the New York City Employees Retirement System, which holds 1% of Cracker Barrel's stock, pushed to get an anti-discrimination question on the proxy ballot, even though the

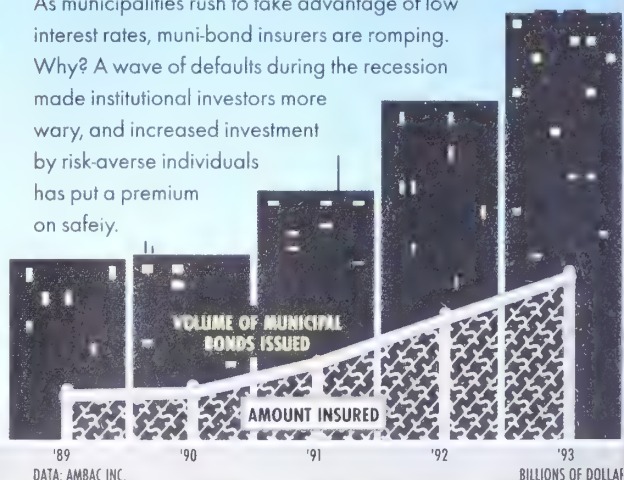
company has since rescinded its public opposition to hiring gays. The company resisted the fund's move and the Securities & Exchange Commission sided with Cracker Barrel, saying it could reject NYCERS' demand because the question wasn't related to ordinary company business.

U.S. District Court Judge Kimba Wood, Manhattan, ordered the suit back off, and the question was placed on the ballot for the Nov. 22 annual meeting. While the proposal lost, it did garner 15.6% of the vote—enough, under SEC rules, for the question to get on the 1994 ballot. The SEC is considering an appeal of the Wood ruling, and NYCERS vows to keep fighting. Cracker Barrel had no comment.

THE BIG PICTURE

PUTTING THE SECURE IN SECURITIES

As municipalities rush to take advantage of low interest rates, muni-bond insurers are romping. Why? A wave of defaults during the recession made institutional investors more wary, and increased investment by risk-averse individuals has put a premium on safety.



DATA: AMBAC INC.

BILLIONS OF DOLLARS



Life.

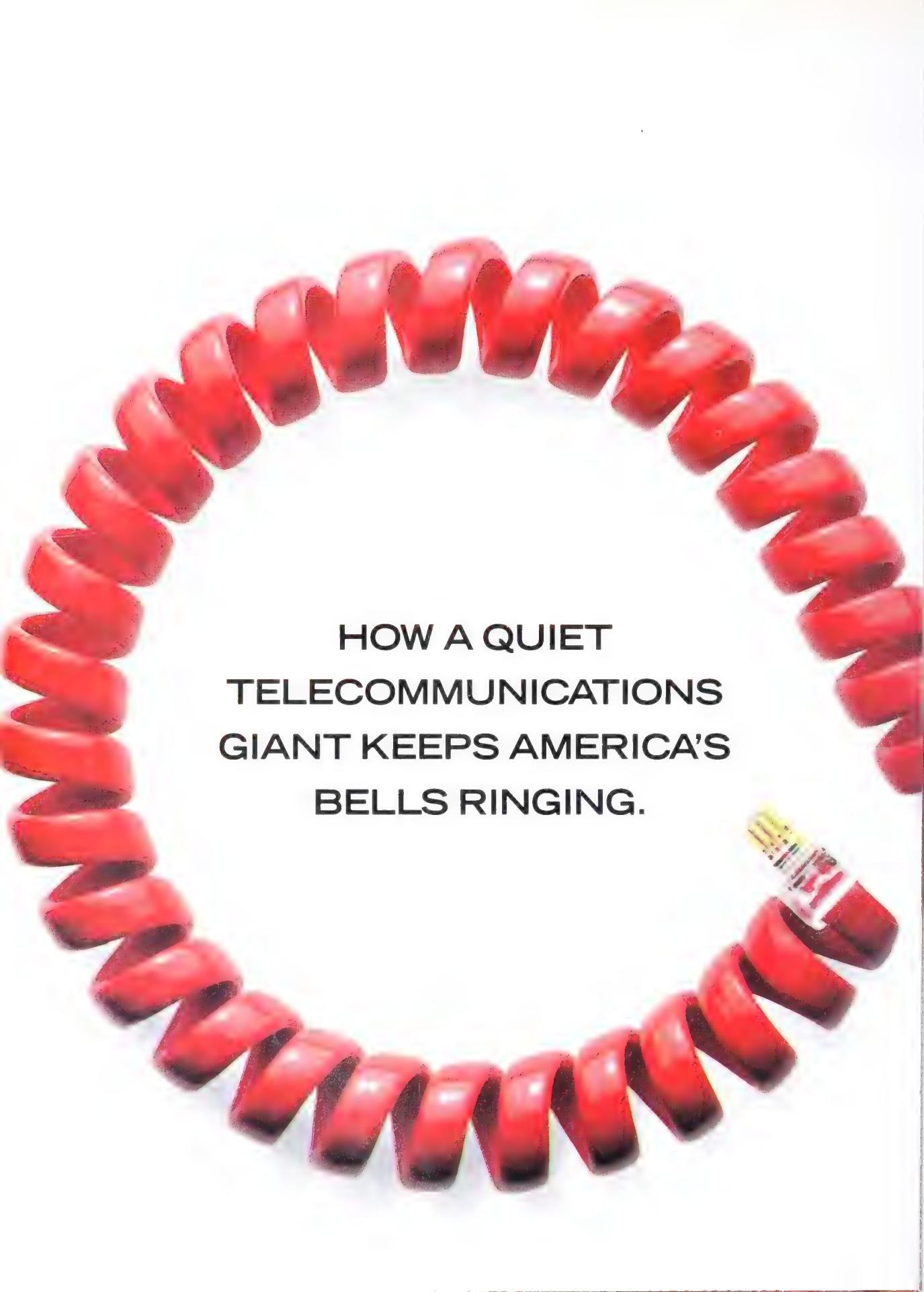
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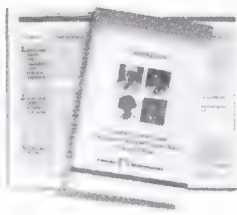
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Illustration by John Hersey As seen in Business Week, January 11, 1993 Issue

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SECOND OPINIONS ON 'THE HOSPITAL'

Your article about the economics and sociology of medical-care "reforms" was outstanding ("The hospital," Cover Story, Jan. 17). It was the most authentic and accurate analysis I have seen in a newspaper or magazine during the past five to six years.

For 10 years, I have told patients and friends that they should visit a Veterans Administration hospital for a day or two before they get too enthusiastic over these cries for health-care reform.

The 24.5% expenditure for administrative costs of pretreatment approval, in-patient review, Medicare audits, compliance with methodology and coding required by the Health Care Financing Administration, etc., has not really saved money by reducing waste (unnecessary treatment), and it has siphoned money away from patient care.

The public ought to be able to read these implications.

Dr. Marvin J. Noble
Dallas

If there is anything that illustrates why there are problems in health care in America, it is the article "The doctor." Dr. Robert G. Blabey complains that he "can't make decisions."

Fact: A physician has no right to make decisions. The customer has the sole right to do so. ("Patient" is an insulting term that has no place today.) The customer has the right to hire a physician, as one would hire a television repairman or a plumber, to perform the procedure that the professional medical literature, not some greedy, self-interested physician, indicates is appropriate.

James Haney
San Antonio

Thank you for your dramatic but accurate account of the administrative strangulation of American hospitals. I knew we were in trouble some 10 years ago, when I first counted more billers

in the billing department than we had patients in the hospital.

Last month, I treated a child with a complication of hemophilia with a new, experimental drug. Nothing else has stopped his bleeding; the new drug did. Each day I gave him the drug, I had to fill out 97 forms. What shall I do if he bleeds again (as he probably will)?

At least, in this complicated case, an expert was allowed to treat the child. We weren't told that some health maintenance organization (HMO) or preferred provider organization (PPO) refused to refer him to an expert, as usually happens. I usually have to threaten the HMO/PPO that if they get a bad outcome with their complicated case, they could be sued, but even that doesn't always work.

Dr. Carol K. Kasper, Director
Orthopaedic Hospital Hemophilia Center
Los Angeles

It seemed to me you omitted a very essential element. The reason that so much paperwork is required is the fact that doctors, hospitals, and others were performing many unneeded services at very high fees—and of course, they still are.

L. A. Peterson
Sun City, Ariz.

PENSION FUNDING: A FALSE SENSE OF CRISIS?

Your article "Pension funding under the gun" (In Business This Week, Jan. 17) rightly points out that the 39% increase in underfunding of company pension plans, to \$53 billion, was caused mostly by falling interest rates. A 1% increase in interest rates would eliminate 30% to 50% of it.

The Pension Benefit Guaranty Corp. publicizes the underfunding as a portent of long-term problems for itself in guaranteeing benefits, which it is not.

The PBGC's net cash flow in the period 1985-92 jumped nearly 500%, to more than \$600 million per year. Also, the ratio of assets to the sum of bene-

CORRECTIONS & CLARIFICATIONS

Due to an editing error, "Cool it! It's the CalPERS cops" (Up Front, Jan. 31) mistakenly said that the pension fund might try to damage poorly performing companies.

"A woman who's running with the tigers," (Finance, Jan. 24), should have said that Merrill Lynch Dragon Fund manager Kara Tan Bhala is 34 and a native of Malaysia.

fits and expenses rose from \$5.69 per \$1 of payout in 1985 to \$8.59 in 1992. Administration proposals for tougher pension rules include a ratio of \$3 of assets to \$1 of payout; thus, the PBGC ratio is nearly triple that amount.

There is merit in proposals aimed at minimizing additional large claims, which should be carefully formulated.

David Langer, Chairman
Employee Benefits Committee
Actuarial Society of America
Greater New York Chapter
New York

A PLEA FOR JUSTICE FROM THE JUSTICE DEPT.

In "Capital wrapup: Civil rights" (Washington Outlook, Dec. 27), you write that many attorneys in the Justice Dept.'s Civil Rights Div. have resigned because they were fed up. Actually, 12 attorneys out of 236 left last year, for an uncommonly low turnover rate of 5%—and none of them expressed frustration.

You also state that there has been a holdup in the Mississippi jail investigations. In truth, our investigations into conditions at the jails have uncovered constitutional violations in a record-setting 18 institutions.

James P. Turner
Acting Assistant Attorney General
Civil Rights Division
Justice Dept.
Washington

Editor's note: The attorneys we talked to did express frustration. Also, the story did not say that the investigation had been put on hold, but that the department has held off filing suits. Although civil settlements are in the works, Justice has yet to file criminal suits.

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by William H. Overholt
 Norton • 431pp • \$25

LETTING CHINA BE CHINA

Last September, Barton M. Biggs, Morgan Stanley & Co.'s stock market guru, witnessed the relentless pace of development in China and pronounced himself "maximum bullish" about the boom. But he wasn't a true believer: He reversed his assessment seven weeks later. Well, meet the real Mr. Maximum Bullish: William H. Overholt, managing director of Bankers Trust Co. in Hong Kong. For years, Overholt has been the most eloquent cheerleader for the dynamism across the border. Now, in *The Rise of China:*

How Economic Reform is Creating a New Superpower, he has produced a provocative work that outlines the reasons to be bullish on China for years to come.

Overholt's key points are that moving only slowly toward a market economy has spared China the sort of turmoil the former Soviet Union has endured, and that greater democracy will follow naturally. While some see China's transformation as helter-skelter 15-year process, he says Deng Xiaoping has followed a well-conceived plan to reform the state-controlled economy. First, Deng freed up China's 800 million peasants, which increased productivity as it ousted their squalid living standard. Then, he allowed the rise of small entrepreneurs. He encouraged foreign investment and backed the creation of modern financial institutions, from two fledgling stock markets to a network of foreign exchange centers.

All this he did before addressing the issue of how to privatize massive, large-unprofitable state industries. And while this cautious approach has been criticized in the West, Overholt asserts that no policy "has been more central to China's success than its gradual but steady emplacement of the foundation stones for successful privatization."

By contrast, Mikhail Gorbachev attacked the pillars of the state economy first, with an emphasis on revamping

heavy industry, Overholt notes. This required huge capital investments with no quick payoffs. Ultimately, he says, Gorbachev's strategy caused production to collapse and inflation to skyrocket.

Overholt sees China as following a model set by its prosperous Asian neighbors—South Korea, Taiwan, and Singapore—which put economic reform before political liberalization. In South Korea and Taiwan in particular, repressive regimes felt they had to modernize their economies for security reasons. Once the economies were thriving, a

na today to South Korea a generation ago: "The repression is real, but the success and stability and glimmerings of freedom are real too." Maybe, but surely it's in everyone's interests to nudge the Chinese along.

All in all, Overholt's dissection of China's economic transformation is compelling. His argument about Gorbachev, though, doesn't quite work. Unlike Deng, who had a revolutionary's credentials, Gorbachev never had the institutional support needed for his reforms. When he called for local initiative—to increase private plots for farmers, say—he was stymied by bureaucrats who controlled such things as how much seed farmers get. Moreover, decades of oppression had left workers and peasants with no clue what initiative is. Frustration drove Gorbachev to put political liberalization before fundamental economic reform.

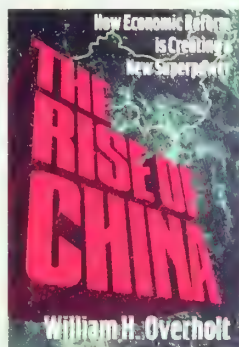
Moreover, even given Deng's economic miracles, China can't delay major structural reforms indefinitely. State enterprises are a drag on its banking system, which doles out huge loans each year to keep them afloat. In July, a new corporate law aimed at creating a modern enterprise system will go into effect. Deadbeat enterprises will have to shape up or, more likely, go under, which could cause massive joblessness.

Overholt addresses such potentially destabilizing problems as inflation, corruption, and political instability, but not in adequate depth. And he assumes that the massacre at Tiananmen Square is a historical footnote. Perhaps, but an equally convincing argument holds that after Deng, leaders will be judged by whether or not their hands are bloody.

Overholt shows how China's economy is converging with those of Taiwan and Hong Kong to form a global powerhouse. China's boom, he says, promises to "reshape the politics of Asia and perhaps the world." The U.S., he says, should stop trying to bully Beijing, since China's reform program is already headed in the right direction. My advice would be somewhat different: China has never been as outward-looking as it is today. If ever there was a time to influence Beijing, it's now.

BY JOYCE BARNATHAN
 Hong Kong bureau manager Barnathan previously reported from Moscow.

By putting
 economics ahead of
 political reform, China
 has avoided the sort of
 turmoil seen in Russia



powerful middle class arose, which demanded more participatory government.

To Overholt, forcing democratic change on developing countries is simply bad economics. The notion that political and economic liberalization can be achieved simultaneously, he writes, "has proven to be an ideological assumption in the strictest sense: a deeply held belief that has no grounding in practical historical experience." Countries such as the Philippines and the former Soviet Union, which first embraced democracy, wound up as economic basket cases.

Rather than judge China's political progress by Western standards, Overholt assesses how far Beijing has come. Just 20 years ago, China was in the throes of the Cultural Revolution—"worse than Hitler's Germany in the degree of control over individuals"—and now it's much freer. Overholt likens Chi-

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NO SENSE THROWING GOOD MONEY AFTER BAD RUBLES

BY RUDI DORNBUSCH



With nationalism, instability, lawlessness, and inflation on the rise in Russia, the path to a free-market economy looks more and more like a dead end

Russia has taken two giant steps toward becoming a really nasty place. Politicians are turning toward some fascist-nationalist-authoritarian model and away from democracy. And in economics, Moscow is turning its back on stabilization and reform. Expect the worst: We may be witnessing a replay of Central Europe in the interwar years.

The large electoral support for Vladimir Zhirinovskiy, a demagogue who cherishes a fascist image and leaves no doubt that he wants to put the world to the torch, shows the extent of the Russian electorate's disaffection with reform, democracy, and decency. Zhirinovskiy, with no idea of how to get there, promises greatness, power, and prosperity for all. His time has not come quite yet, but he will gain as the economy worsens.

Disappointment with economic reform has led to the exclusion from the new Cabinet of Yegor Gaidar, Russia's brilliant economic reformist democrat, along with other reformist democrats. Boris Yeltsin, unwilling to push reform, vacillates. The reformists are out, and the statists are in. One of the few winners is Viktor Gerashchenko, Russia's longtime central banker, who runs the printing presses for the benefit of state enterprises and the old-time power structure.

The hope that Russia might brave the long and difficult path to a democratic free-market economy can be shelved for a long time. Russia has five immediate problems:

■ **Nationalism within and without.** A few minor civil wars are being waged inside the Russian Confederation, and there are plenty of rivalries with the former republics. Moscow's repeated references to the need for protection of Russian minorities in these states echo Hitler's warnings in the 1930s. And where will the first *Anschluss* occur? Presumably in the Baltic states.

■ **Political instability.** A lack of stability is the common thread in Russia's unpredictable election results: an electorate whose taste ranges from czars to punks, a Parliament without a center of gravity, a President whose views on democracy won't stand up to scrutiny, and insufficient support for democratic reform. A young democracy faced with severe economic problems almost always fails, and Russia is no exception.

■ **Inequality.** There is a vast and growing gap between the *nouveaux riches* of Moscow, flush with Mercedes and BMWs, and the destitute millions who feel they are the victims of a reckless market play.

■ **Lawlessness.** There is a no-man's-land between the state and the market, where de-

centralization is incomplete, institutions are missing, and the daily question is whether reform will move forward or return to square one. Ripping off the state is fair game, the law of the jungle applies, underworld gangs function as private enforcement agencies, and the dollar rules supreme.

■ **Inflation.** Current inflation rates of 10% to 30% per month are the staging ground for hyperinflation, which, if it comes, will create a political and economic vacuum that's sure to suck in authoritarian rule. In the aftermath of World War I, German hyperinflation—and that of Austria, Poland, and Hungary—set the stage for Nazi rule.

Russia's economic problems and the political risks that go hand in hand with them are unique. They are not the problems of the Czech Republic, for example, nor of coastal China. We must remember that Russia is inward-looking—and that makes all the difference. Coastal China is outward-looking, the Czech Republic on Germany's border always has been, and so are the Baltic republics. Along with their outward orientation, China and the Czechs are producing with a focus on world markets. Russia, by contrast, is suspicious of the world, reluctant to embrace an export strategy, and trapped in an imploding internal market.

Reform is another point of contrast. In China, it means brand-new plants that create rather than destroy industrial jobs for workers who previously had none. In Russia, it means undoing inefficient enterprises, with large-scale loss of jobs and economic insecurity. The process is highly politicized. Since reform almost invariably aims for higher productivity, which means shedding workers in privatized companies, workers predictably and understandably resist. They vote to stop privatization and, instead, get credits from the central bank to finance wages in enterprises that can't cover costs or make profits.

China's transformation offers dynamism and prosperity, while in Russia, the way forward often seems less attractive than taking a breather or even moving backward. Like Russia, the Czech Republic needs modernization. But there, the task is carried out by massive foreign investment in plants and immediate opportunities in export growth.

There is little the West can do for Russia. Fast disbursement of International Monetary Fund monies and other aid will make little difference. Our best investment is to support reform in China and thus gain a strong partner in market economics—one that could help stabilize the world if Russia crashes.

RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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BY GENE KORETZ

WHAT'S GOOD FOR SCRAP HEAPS IS GOOD FOR DETROIT

While auto industry executives expect sales to rise 6.5% this year, to around 14.8 million units, there's growing optimism in some quarters that the pace could accelerate far more sharply (page 92). One development raising hopes is a big rise in the number of cars and light trucks being scrapped.

In the past decade, America's fleet of cars and light trucks has grown older and older—a trend attributed to slow income growth, improved vehicle durability, and rising car prices. Since most cars sold in any year replace older vehicles, the lengthening of car lives inevitably reduced scrappage and undercut sales. At some point, however, it no longer makes economic sense to keep old clunkers running, and pent-

cyclical upswings. (On average, sales ran 38% ahead of scrappage during the 1980s expansion). Thus, barring a recession, says Wilson, vehicle demand over the next few years is primed to eclipse its record pace of the mid-1980s, when annual sales reached as high as 16.3 million. In fact, auto analyst Philip Fricke of Prudential Securities Inc. thinks there's a fair chance that scrappage will rise more than anticipated.

"Today's cars and trucks, with air bags, multivalve engines, and antilock brakes, are far different from the vehicles sold as recently as 1988," he says. "A growing perception of technological obsolescence may just provide the market with a positive surprise."

THE TAX BITE THAT'S HOLDING GERMANY BACK

If you're concerned about the impact of tax increases on the U.S. expansion, cast an eye on Germany, which has been enacting massive tax hikes in the midst of a recession. Economists at Salomon Brothers Inc. report that this year's rise in pension-insurance contributions will claim an additional 0.85% to the payroll-tax rate, bringing it to 9.6% of the taxable wage, and a new nursing-home-care scheme awaiting legislative approval would add a similar amount.

Along with an increase in gasoline taxes, these measures are expected to boost the average German worker's total tax rate this year to 45% of wages, from 44.1% last year and 40.1% in 1990. What's more, that rate is projected to surge past 47% next year, when a 7.5% income-tax surcharge is scheduled to go into effect.

With growing unemployment, real aftertax wages already down by 2.3% since 1990, and household savings rates approaching historical lows, the rising tax bite promises to undermine consumption and prolong the recession, say the Salomon economists.

MINIMUM WAGES: A FAST-FOOD STUDY FLIPS THE ACCEPTED WISDOM

In theory, a rise in the minimum wage should lead employers to cut their work rolls. But as a recent study by David Card and Alan Krueger of Princeton University shows, the real world often defies theoretical expectations.

In early 1992, when New Jersey was

still suffering from recessionary woes, raised the minimum wage from \$4.25 to \$5.05 per hour—80¢ more than in neighboring Pennsylvania. To assess the impact, the two economists surveyed 40 fast-food restaurants in New Jersey and Pennsylvania in the month before the increase and eight months later.

The results turn the conventional wisdom upside down. Instead of widespread layoffs, Card and Krueger found that stores located in New Jersey actually increased employment by about 13% on average, or 2.5 workers per store, relative to stores in nearby eastern Pennsylvania. What's more, the effect was entirely concentrated in the stores in New Jersey that had been paying wages less than \$5 per hour before the increase went into effect. New Jersey fast-food outlets that had originally been paying \$5 or more per hour showed essentially the same employment growth as the Pennsylvania counterparts.

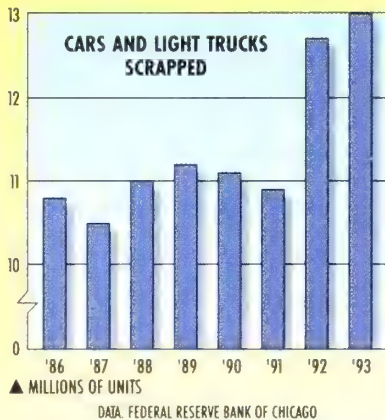
Why the rise in employment after the minimum-wage hike? Noting the wide range of pay rates even among neighboring fast-food outlets, Card points out that stores choosing to pay low wages are often plagued by high turnover and job-vacancy rates. A higher minimum wage, he speculates, may have ameliorated such problems, and this may have led to a rise in employment.

WHY U.S. EXPORTS COULD GO FROM HOT TO SIZZLING

While the overall trade picture doesn't seem to be particularly encouraging, given America's insatiable appetite for imports, economist Mitchell Held of Smith Barney Shearson points out that the nation's export performance is nothing to sneeze at. The latest statistics indicate that U.S. exports are running 4% over their year-earlier level—3.5% in volume terms in light of a 0.5% rise in export prices. By contrast, world trade volume is estimated to have risen only 2% to 3% over the past year.

Despite the recessions plaguing Japan and Western Europe, U.S. exports to those destinations have not declined appreciably. And shipments to Canada, Britain, and much of Asia are in the double-digits, while exports to Mexico are now running nearly 3% over year-earlier levels after being down to around 5% under year-earlier levels only a few months ago. As the world economy picks up steam later in the year, predicts Held, America's export growth should accelerate sharply.

CONSUMERS ARE FINALLY JUNKING THEIR CLUNKERS



up replacement demand takes off.

That's apparently what's started to happen in recent years. As the percentage of vehicles on the road that are at least six years old has continued to climb from 53% in 1989 to 58% last year, the number of vehicles being junked has jumped to record levels (chart). Economist William Wilson of Detroit's Comerica Bank notes that more than 77 million vehicles were sold from 1984 through 1988. Since 73% of all vehicles are junked by their 10th year, he predicts that scrappage will rise steadily, topping 14.7 million vehicles by 1998.

The icing on the cake is that scrappage provides only a rock-bottom floor for sales, which always outpace replacement demand by a healthy margin in

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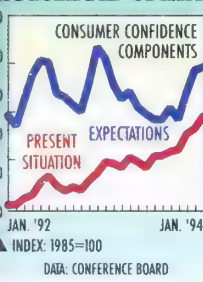
THE COLD WON'T STALL THIS REVVED-UP ECONOMY

President Clinton must have felt pretty good as he prepared for his first official State of the Union address. His ratings in the polls have rebounded strongly, consumer confidence is the highest in more than three years, and the economy hasn't looked this good since the Buffalo Bills were not in the Super Bowl.

Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. Lower long-term interest rates, for which the White House can take at least partial credit, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy (chart).

The good news for the first quarter is that the fundamentals that lifted the economy at the end of last year remain in place, ready to support growth this quarter. It might not look that way as the January data come in, though, given the chilling influence of the Arctic Express and shock from the California earthquake.

WHAT'S LIFTING HOUSEHOLD SPIRITS



issue a statement on Jan. 25 urging bankers to be flexible in dealing with borrowers hit by the quake.

Nationally, retail buying dropped sharply in the third week of January, says the *Johnson Redbook Report*, reflecting the cold and the quake. Seasonally adjusted sales held 1.3% above December, but that was way down from the 3.5% gain in the first two weeks. However, Mother Nature's negative effects on these and other data should ease with the February and March reports.

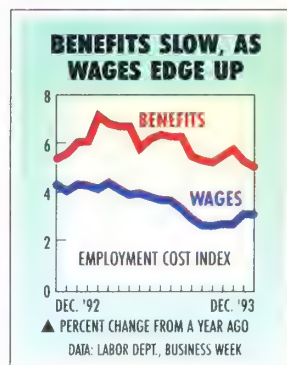
CONSUMER CONFIDENCE GETS A BIG BOOST

Weather aside, Clinton probably begins 1994 with a strong sense of *déjà vu*. A year ago, he rode into Washington on a wave of postelection euphoria, rising consumer spirits, and a stronger-looking economy only to see it all fade in the first half of the year. In 1994, though, the economy isn't likely to become a political liability, as

consumer spending, business investment in equipment, and housing continue to buoy growth.

In particular, consumers seem to be in the game to stay. Recent gains in consumer attitudes suggest that households are feeling the economy's improvement in their everyday lives. And unlike consumers' election-related leap of faith this time last year, the latest jump is grounded in better economic fundamentals.

Indeed, the breakdown of the Conference Board's index of consumer confidence shows that households' assessment of present conditions is markedly more upbeat. The overall index rose to 83.2 in January, from 79.8 in December. Confidence hit a low in June, 1993, but since then, the present-situation component has risen 62%, while the expectations index is up 34%.



To be sure, consumers are still worried about jobs, but less so than before. Although the number of households in January who said jobs were "hard to get" outnumbered those who said they were "plentiful" by 3 to 1, the percentage reporting that jobs were "hard to get" fell to the lowest level in nearly 3 years.

LABOR COSTS WON'T FUEL INFLATION

But it's more than just solid economic growth. Add in low inflation, and the White House enjoys a win-win combination. It assures that any hikes in interest rates by the Federal Reserve will be few, far between, and small—and that monetary policy won't intrude into Clinton's 1994 agenda.

Labor costs, the best gauge of inflationary pressures, show no signs of acceleration. The Labor Dept.'s employment cost index rose 0.8% in the fourth quarter, putting labor costs for both wages and benefits in the private sector 3.6% above a year ago. For nearly two years, the annual growth has ranged from 3.4% to 3.7%, and better productivity is offsetting much of the increase.

Moreover, benefit costs are slowing (chart). They rose only 5% last year, the slowest pace in six years. In 1994, labor-market slack and corporate cost-cutting will hold down wage growth, and the Clintons' efforts to reform health care will keep downward pressure on benefits.

Although in his speech President Clinton took credit for the entire economy's peppier tone, his Administration's ac-

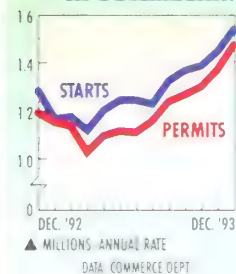
tions helped only a few sectors. One important area was housing, where the drive to reduce the budget deficit touched off the bond-market rally that made home buying very affordable.

BUILDERS SHOULD STAY BUSY IN 1994

Indeed, housing ended 1993 with a bang. Housing starts soared 6.2% in December, to a four-year high of 1.54 million, at an annual rate (chart). The gain was the fifth in a row and pushed starts for all of 1993 up to 1.29 million, the best year for homebuilders since 1989.

Activity in the existing home market was also furious. Resales in December hit an all-time best of 4.49 million, at an annual rate, replacing the previous record set just a month earlier. For the year, 3.8 million existing homes were sold—the highest pace since 1979. The combination of high new-home construction and record resales suggests that consumer spending on home-related goods should continue its solid upward trend in early 1994.

HOUSING WAS HOT IN DECEMBER...



Can housing enjoy another good year in 1994? Probably, especially because of the rebuilding in California. But the frenzied pace of last quarter—when starts reached 1.46 million—isn't sustainable.

That's because two factors—demographics and a glut of apartments—will not support housing starts at such a high rate. Most important, household

formation is the best indicator for housing demand, and only 1.3 million new households will be formed this year.

Moreover, many of those new households will move into apartments that are now vacant. Indeed, the biggest drag on the residential-construction sector has been the glut of apartments built in the 1980s. Starts on housing with five or more units have fallen for eight straight

years. In 1993, just 130,000 units were built—the lowest number in 30 years of record-keeping.

Fortunately, the recent uptick in mortgage rate doesn't dim the housing outlook. Even with the rise in rates and in home prices, the average monthly mortgage payment has increased by less than \$50 since the third quarter. That's probably not enough to cut many buyers out of the market, especially with jobs and income growth likely to continue to strengthen this year.

Of course, housing won't look like a hot sector when the January data are released. It's a good bet that construction in general took a big hit from the record low temperatures that froze the U.S. from the Plains to the East Coast and as far south as Georgia (table).

Moreover, other sectors likely felt the effects of an icy January—as well as the California earthquake. In addition to housing and retail sales, nature's fury probably will have a big impact on the January data on utility use, industrial production, and overall hours worked in the economy.

For the most part, however, the weather's damper on growth is temporary. Homes not started in January will be built in February. Moreover, because the freeze came early in the first quarter, the drag on gross domestic product may be minimal if winter returns to a more seasonal pattern. That's because retailers, builders, and other businesses have two months to make up lost sales.

Apart from January's data, the economy is clearly on a healthier uptrend than during Clinton's first address to Congress this time last year. And the solid expansion is the big reason why Clinton has shifted his focus away from the business cycle and refixed his laser beam on health care, welfare, and crime in 1994.

...BUT WON'T BE IN FRIGID JANUARY

	1994 LOW AS OF JAN. 21	NORMAL JAN. LOW
DEGREES FAHRENHEIT		
ATLANTA	6	33
BOSTON	-4	23
CHICAGO	-21	14
MINNEAPOLIS	-27	2
NEW YORK	-2	25
PITTSBURGH	-21	19
PHILADELPHIA	-6	24
ST. LOUIS	-8	20

SOURCE: NATIONAL WEATHER SERVICE

THE WEEK AHEAD

PERSONAL INCOME

Monday, Jan. 31, 8:30 a.m.

Both personal income and consumer spending likely rose by 0.5% in December, according to the median forecast of economists surveyed by McGraw-Hill Inc.'s MMS International. That's suggested by job growth and strong retail sales for the month. In November, income increased 0.6%, while consumer outlays were up 0.4%.

NAPM SURVEY

Tuesday, Feb. 1, 10 a.m.

The MMS economists expect that the index of business activity compiled by the National Association of Purchasing Man-

agement fell slightly, to 57% in January from 57.1% in December. Cold weather and the earthquake may have caused the index to slip by even more.

CONSTRUCTION SPENDING

Tuesday, Feb. 1, 10 a.m.

Construction spending likely soared 1.5% in December, on top of a 1.8% gain in November. That's suggested by the 6.2% jump in housing starts.

LEADING INDICATORS

Wednesday, Feb. 2, 8:30 a.m.

The government's composite index of leading indicators probably rose 0.5% in December, the same solid increase as in November.

NEW SINGLE-FAMILY HOME SALES

Wednesday, Feb. 2, 10 a.m.

New homes likely sold at a 780,000 annual rate in December. That's only a bit below November's rate of 807,000, the highest in 7½ years.

EMPLOYMENT

Friday, Feb. 4, 8:30 a.m.

The MMS survey projects that nonfarm jobs grew by 188,000 in January, about the same as in December. The unemployment rate under the Labor Dept. new surveying process will probably stand at 6.9%. Using the old technique, the jobless rate in January was probably 6.4%, unchanged from December.

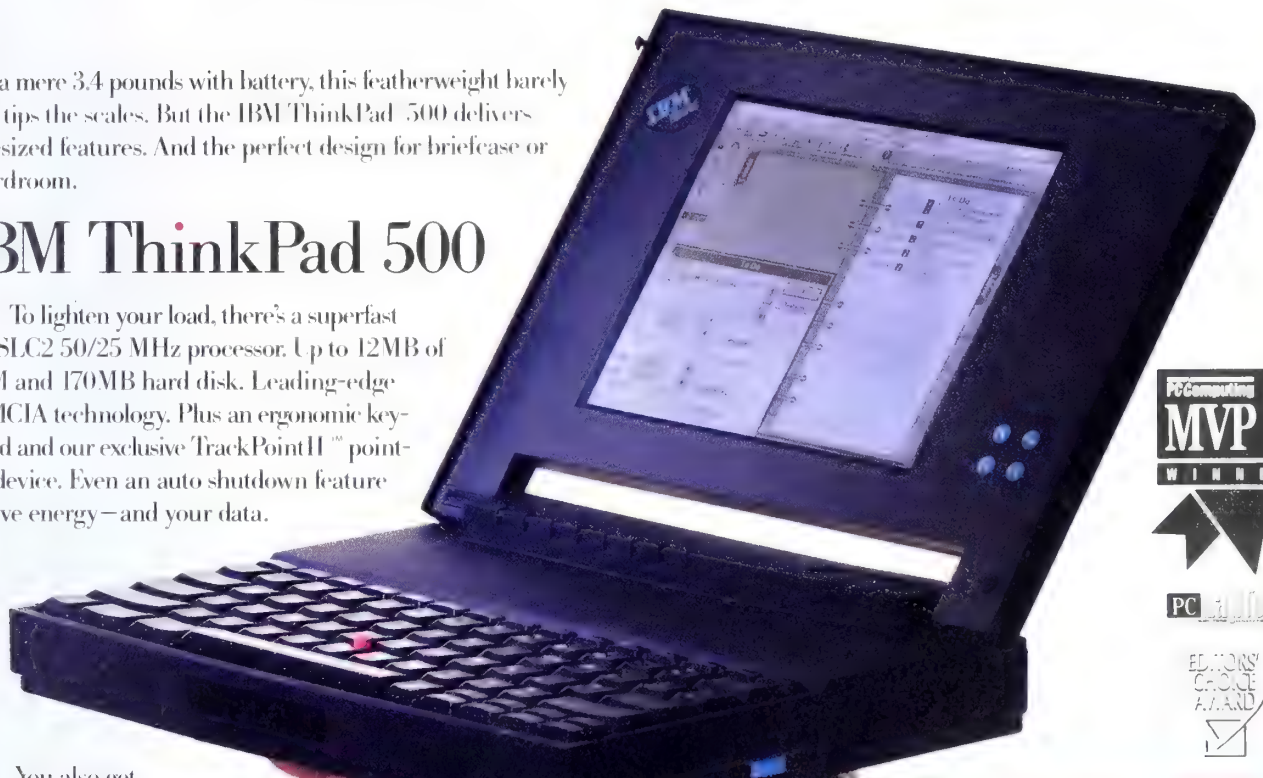
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Model	Processor	Display	Weight	Battery Life	PCMCIA	Hard Disk	Price
500	486SLC2 50/25 MHz	7.4" monochrome	3.4 lbs.	3.5 to 9 hours	Type II slot	85MB or 170MB	\$1,999 for 85MB
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SHOOTOUT AT TIME WARNER?

BRONFMAN COULD SETTLE FOR A BOARD SEAT—OR OPEN FIRE

Like thousands of others, Gerald M. Levin was rudely jolted awake on the morning of Jan. 17 by the Los Angeles earthquake. Hours later, the chairman of Time Warner Inc. checked out of the Peninsula Hotel and departed for New York on his private jet. Although his Warner Bros. studio lot was badly damaged, Levin had pressing business back East: Three days later, Time Warner's board would vote on an anti-takeover plan drawn up by Levin after Seagram Co. boosted its stake in the media giant from 10.4% to 11.7%.

Critics of Levin have seized on this anecdote as evidence of a CEO more concerned with his own job than with the welfare of his troops.

Such remarks would qualify as routine Hollywood cattiness if they didn't come from close advisers

to Seagram's Edgar Bronfman Jr. Bronfman is masterminding his company's \$1.7 billion investment in Time Warner. And he is fuming that Levin passed a poison pill just weeks after telling him that he welcomed the Seagram investment. "It clearly represents a changed attitude on the part of Time Warner," says Bronfman. The upshot: He and Levin are locked in a war of nerves.

HUGE PRICE. Will Seagram launch a takeover of Time Warner? Most observers find such a prospect improbable. For one thing, with its sprawling assets, revenues of \$14 billion (table), and \$16 billion of debt, the company could cost more than \$20 billion. For another, Levin

has consolidated his power since he took over from Steven J. Ross in December, 1992, most notably by replacing several Ross loyalists on Time Warner's board with his own appointees.

Still, company insiders and Wall Street bankers believe Bronfman has been planning a "creeping takeover," by which he would accumulate enough shares to take control without paying a premium, much as Laurence A. Tisch did with CBS Inc. in 1986. Levin declines to comment, but other Time Warner executives contend that the poison pill won't fend off a legitimate suitor: "If Seagram wants to come in and buy this company at a premium," says Michael J. Fuchs, chairman of Home Box

EDGAR
BRONFMAN JR.



Office, "nothing is going to stand in their way."

Now, Levin and his colleagues are girding for Seagram's next move. Bronfman is meeting with his advisers in New York on Jan. 28 to plot strategy. He says he is continuing to review the rights plan and won't make any hasty moves. Bronfman hasn't asked for a seat on the board, nor has Levin offered one. But Bronfman clearly is smarting. "Why in God's name would they not offer their biggest shareholder a seat?" asks one adviser.

An even bigger question is whether Seagram will move to oust Levin. Media executives dine out on rumors that Hollywood superagent Michael Ovitz will someday run Time Warner. Ovitz, a good friend of Bronfman's, helped steer Seagram toward its Time Warner in-

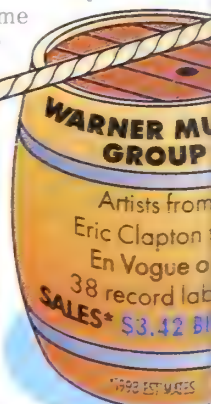
vestment. But Bronfman maintains he has no problem with Levin: "All we've done is to express confidence in Time Warner management," he says.

What does rankle Bronfman and his surrogates, though, is Levin's style. "If Steve Ross were alive," says one adviser, "he would have hugged Edgar Bronfman like a brother." Instead, they say Levin sprang the poison pill after appearing to accept Bronfman's pledge that Seagram would buy only 15% of Time Warner stock. The plan now caps

Seagram's—and any other investor's—stake at 15%. Time Warner's executives ask why Levin should have called Bronfman to give him early warning on the poison pill when Seagram didn't provide Time Warner with advance information on its plan to buy stock.

To some extent, Levin is caught between the clashing cultures of New York and Hollywood. In addition to Ovitz, Bronfman Jr.'s key advisers are his father, Seagram Chairman Edgar M. Bronfman, and entertainment banker Herbert A. Allen Jr. Between them, Ovitz and Allen have brokered the sale of several big studios. Allen is advising Barry Diller on his bid for Paramount Communications Inc., and Bronfman himself once produced films. Levin, by contrast, spent his career in the New York headquarters of Time Inc.

Unlike Ross, Levin doesn't assiduously court movie stars or agents such as Ovitz. Time Warner executives say he doesn't need to: "That's what he has



erry and me for," says Warner Bros. Chairman Robert A. Daly, referring to studio President Terry S. Semel. "I think our results say something about whether that's been a good decision."

HOT MOVIES. Indeed, Warner captured the box-office crown in 1993 for the third straight year, with hits such as *The Fu-*

TROPHY ASSETS—UP FOR GRABS?



GERALD M. LEVIN

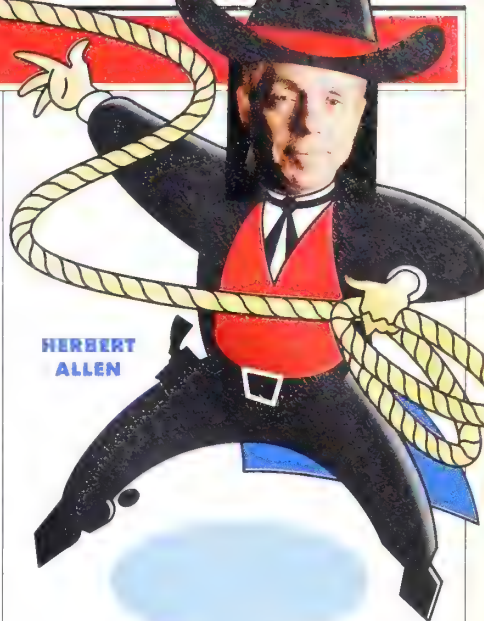
of the impact of cable reregulation, the company's stock has risen 32%, to 38%, since Levin took over. He has also improved Time Warner's balance sheet by swapping preferred equity for cheaper long-term debt. Levin raised \$2.5 billion from US West Inc. by selling the Baby Bell a 25% stake in its entertainment properties. Bronfman's advisers snipe that Levin should have extracted more from US West. But the phone company is helping Time Warner build the first fully interactive cable network in Orlando. The company also is starting a fifth broadcast network.

On the negative side, some media executives say Levin still hasn't fully resolved a simmering feud between HBO and Warner Bros. Although Fuchs and Daly insist their relations have improved, outsiders still question whether Levin commands his headstrong division chiefs as well as Ross did.

Cable TV is another weakness. Government rate regulations are taking a bite out of Time Warner's cable cash flow. As a result, Drew Marcus, an analyst at Alex. Brown & Sons Inc., has reduced his 1994 forecast for Time Warner from earnings of \$80

million to a loss of \$112 million on sales of \$14.9 billion. Mario Gabelli, a money manager who is one of Time Warner's top shareholders, thinks the hiccup in cable profits helps explain why Levin felt compelled to corral Seagram now. With a depressed stock price, Seagram could have boosted its stake on the cheap.

If Time Warner were put in play, Gabelli and other shareholders would prefer a full-fledged take-



HERBERT ALLEN

over battle to a Tisch-style, slow-motion siege. But one executive close to Bronfman disagrees that even such a creeping takeover would hurt Time Warner investors: "Shareholders of CBS have done considerably better under Mr. Tisch than Time Inc. shareholders have done under their management."

Given those sentiments, Levin probably felt he had little choice but to throw barriers around his company. Not so clear is whether Time Warner's poison pill will thwart Bronfman if he chooses to mount a campaign against it. Time Warner does have the support of institutional shareholders, such as the giant California pension fund, CalPERS. Levin's plan is only slightly different from one recommended by CalPERS to several other major companies. But a Delaware Chancery Court recently threw out a poison pill used by Paramount to fend off a hostile takeover bid by Diller's QVC Network Inc.

As for money, Seagram also owns a 24.3% stake in DuPont Co., which is worth \$9 billion. The company says its relationship with DuPont has been amicable. But executives familiar with DuPont say the Bronfmans have been aggressive shareholders, demanding board seats in proportion to their holdings.

For Jerry Levin, High Noon may come a lot sooner than he expects.

By Mark Landler in New York and Ronald Grover in Los Angeles



MICHAEL OVITZ

itive. This year's slate looks equally promising, with two strong westerns, *Gyatt Earp* and *Maverick*.

Hot movies aren't the only arrow in Levin's quiver. In addition to shrinking the board and replacing members, the oft-spoken CEO enjoys the support of longtime directors such as Henry Luce I. Luce says Levin has mastered Time Warner's far-flung operations: "He's all over the damn place."

Certainly, Levin has convinced Wall Street that Time Warner is on the move. Despite a recent retreat because

A RAID ON REAGAN'S PLAYBOOK WINS ONE FOR CLINTON

But a "talk Republican, govern Democratic" approach can be risky

In 1981, Democrats sat in stony silence as Ronald Reagan railed against welfare queens and gun-toting criminals. But when President Clinton pounded the podium in the House on Jan. 25, promising to force welfare mothers into jobs and vowing to lock up career criminals for life, the Democrats stood and cheered. Stunned Republicans could do little more than grumble that Clinton, reborn as a long-winded version of the Great Communicator, had stolen their best lines.

The President's State of the Union performance won rave reviews in overnight polls, though there was little new in his agenda of health-care reform, a welfare overhaul, and some largely symbolic crime-fighting. But with the speech, Clinton made it clear that he's swiping more than just a few pages from the Reagan playbook. He virtually replicated the Gipper's basic strategy of governance: Stick with a few core principles on every issue—and accept any outcome that meets the standard, however far it deviates in the details.

On health care, Clinton emphasized that he is no longer wedded to the complex specifics of his proposal, so long as Congress agrees on a plan to cover everyone. On crime and welfare reform, the President demonstrated that he's quite willing to sound Reaganesque themes of work, community, and family—if they're combined with Democratic touches of government activism to help the downtrodden. He even reminded Congress that Richard M. Nixon—whose name heretofore has been the object of consistently bipartisan avoidance—was an early advocate of health-care reform. It's great that Clinton's "talk Republican, govern Democratic" ap-

proach is fraught with dangers. Members of Congress, always ready to turn Clinton upside down and see what falls out of his pockets, may see his flexibility as a sign of weakness. And his plunge into Republican social issues risks alienating his electoral base of liberal Democrats. "It will be hard to hold the

"Right now, the President is in a perfect position to co-opt traditional Republican issues," says Republican pollster Tony Fabrizio. "This would be a devastating blow to the GOP."

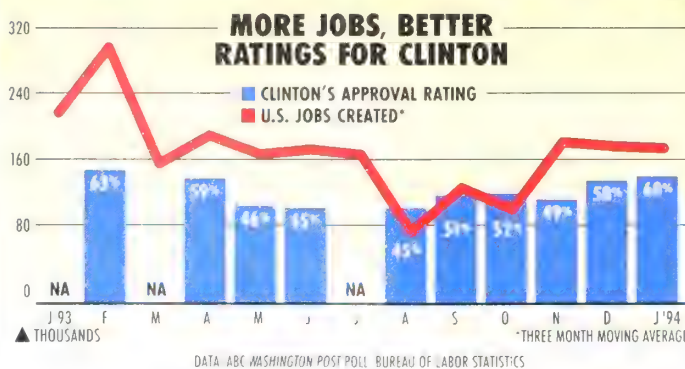
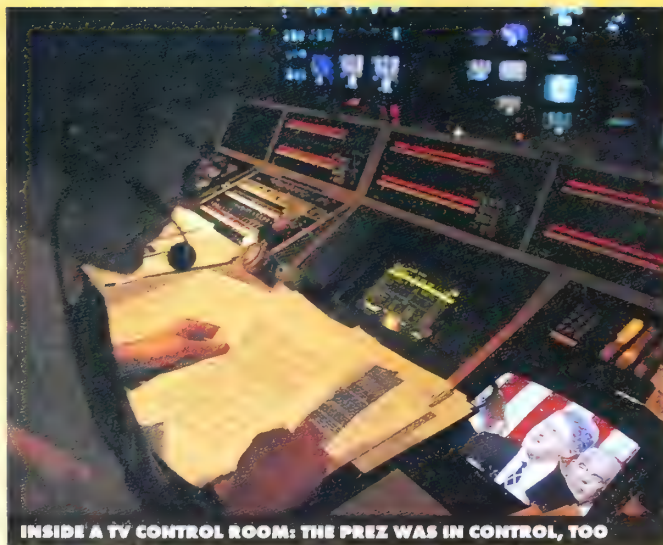
Clinton still has a staggering amount of work to do to turn his rhetorical coup into substantive success. Were the Administration's health plan to come to a vote today, it would face crushing defeat. Moderate and conservative Democrats adamantly oppose requiring all employers to pay for coverage. Many Republicans, including Senate Minority Leader Bob Dole of Kansas, argue that there is no health-care crisis: All that's needed, he says, are modest steps making coverage more available to small businesses and individuals. And Clinton seems to have made his challenge even more difficult by threatening to veto any bill that does not guarantee comprehensive benefits to everyone.

But lines in the sand are movable. The Clintonites are signaling that the President is willing to compromise on every other provision of his complex proposal—from caps on insurance premiums to fee schedules for physicians. He's not wedded to an employer mandate as the only way to ensure benefits. Democratic liberals won't be happy, but they'll settle for a long-term phase-in of universal coverage as the price of passage. "If Clinton emphasizes the bottom line and is willing to give up the fine print, he will win on health care," says Democratic strategist Ted Van Dyk.

Clinton has shown the same willingness to bend on the thorny welfare issue—and here, too, he may have found a path to the political middle. In early January, the White House had just about decided to

defer a welfare overhaul until next year. But the President changed his mind after Senate Finance Committee Chairman Daniel P. Moynihan (D-N.Y.) threatened to stop health care in its tracks unless welfare reform was taken up promptly. Now, Clinton says, the two measures should proceed in tandem.

Clinton's get-tough rhetoric on crime and welfare will win him grief from his own party's liberals. For almost 30



Democrats together," says James P. Pfiffner, government professor at George Mason University. "Clinton has no core coalition in Congress."

The GOP's position, however, is far more tenuous. The Republicans can lapse into shrill partisan opposition to many Republican-originated ideas hijacked by Clinton. Or they can vote with Clinton—and risk damaging GOP prospects in coming elections. Either way, they lose.

years, Democrats have reflexively branded GOP tough talk on these issues as thinly veiled racism. But now, Clinton is playing to a broad middle-class consensus that the welfare system has become a breeding ground for crime and dependency. Certainly, his tough talk played well with Americans such as Nettie G. Perkins, owner of a Denver beauty salon. "I come from a background where you didn't go on welfare," she said after the speech. "Working gives you pride in yourself."

The trick for Clinton is moving welfare moms off the dole after two years without appearing callous. "Welfare needs to be restructured, but people don't need to be dumped from the rolls," says Atlanta businessman Charles Whatley. To satisfy such voters, Clinton has to devise a package that includes job training, education, and employment opportunities—all within the constraints of tight budget caps. "There's a lot of dissatisfaction with welfare in the black community," says David Bositis of the Joint Center for Political & Economic Studies, a think tank specializing in African-American issues. "As long as he gives some goodies for the welfare constituency, he can do two-year limits and some tough measures."

On crime, too, Clinton is seizing a political opportunity. Black outrage at the rising tide of urban crime has made it easier for Democrats to tackle the explosive issue. "Repeated criminal offenders must be dealt with," declares Representative Eva M. Clayton, a black Democrat from North Carolina. The anti-crime legislation Clinton called for on Jan. 25 is ready well on its way to passage. The Senate overwhelmingly passed a tough bill last year, and House members are ordering polls showing that crime is the top issue on voter's minds.

There's some resistance on both ends of the political spectrum. Conservatives are fighting a Senate ban on assault weapons. House Speaker Thomas S. Foley (D-Wash.) and other liberals oppose such get-tough provisions as mandatory life sentences. But Clinton is ready to raffle liberal feathers to win a quick victory. "This is inevitable," insists Senate Judiciary Committee Chairman Joseph R. Biden (D-Del.). "They can tinker on the edges, but they can't stop it."

Clinton's agenda of health care, welfare, and crime sets a daunting legislative task for this year. But he's well on his way to defining success in ways that make victories possible. And that could allow him to match another Reagan at—winning a second term.

By Susan B. Garland and Richard S. Tedlow in Washington, with Maria Maloney in Atlanta, Sandra D. Atchison in Denver, and bureau reports

THE CABINET

FOR PERRY, THE BEST DEFENSE MAKES COMMERCIAL SENSE

The Defense Secretary-designate is rethinking partnerships with Japan



GOING WITH THE TECHNOLOGY FLOW: PERRY WITH THE NAVY'S STEALTH SHIP SEA SHADOW

In a Fort Worth factory, Lockheed Corp. engineers are building test wings for Japan's new fighter plane, the FSX. By itself, that's hardly a surprise. U.S. defense companies have been licensing or selling military technology to Japan for decades. But Lockheed workers are building the composite carbon-fiber wing using cutting-edge made-in-Japan fabricating technology—a rare case of military technology flowing in reverse, from Japan to the U.S.

If Defense Secretary-designate William J. Perry has his way, such deals will be far more common. Perry, who was Deputy Secretary before being tapped for the top job on Jan. 24, has been implementing a bold agenda as departing Secretary Les Aspin's No. 2. Now that the former Silicon Valley executive and Stanford University professor is poised to take over the top post, the pace of change will accelerate. Clintonites think he can play a key role in the drive to bolster U.S. competitiveness.

OFF THE SHELF. The technology-swap plan, known as the Perry Initiative, illustrates the new defense chief-designate's approach. Japan would ante up some of its technological secrets in exchange for U.S. military systems. And since Tokyo can't offer much in the way of advanced tanks or missiles, the Pentagon wants Japanese companies to hand over the technology—as well as the manufacturing knowhow—for such commercially important products as flat-panel displays and advanced composites. If the plan succeeds, contends Deputy Assistant Secretary for Defense Kenneth S. Flamm, "it will be one of the most important things the Administration has done."

Perry, moreover, is pushing other ini-

tiatives. Whenever possible, he wants to buy off-the-shelf components for defense systems, refocus the Pentagon's R&D dollars on research that has both military and commercial payoffs, and encourage defense companies to find civilian uses for their military technologies. "We want to erase the distinction between defense and commercial industries," says one aide.

To be sure, it's far from certain that the Perry approach will succeed. Programs such as the tech-swap scheme "will be very difficult to manage" because they involve several companies with conflicting aims, predicts John Bottimore, Asia-Pacific marketing manager for Honeywell Inc.'s Defense Avionics Systems unit. There are also unresolved questions about who would own what. And Japanese companies fear not getting enough for their technology.

Still, the tech-swap initiative has been gaining acceptance ever since Perry first broached the idea while visiting Japan last May. The Pentagon is busily working to identify specific technologies and projects it hopes to pursue. "Japanese companies are very interested—but discussions are going to take time," warns economist Kiyooki Aburaki at the Keidanren, Japan's largest business council.

For their part, U.S. companies are intrigued but skeptical. "It's a big step in the right direction," says Paul Rubin, director of special projects at TRW Overseas Inc. Not a bad plaudit for a guy about to start a new job. If Clinton's new Defense Secretary can continue to make progress, he might just last a bit longer than his predecessor.

By John Carey in Washington and Neil Gross in Tokyo

THE FOURTH QUARTER: GO FIGURE

Sales and profits are up, but some companies are skewing the picture

Freakish results at oil companies and Baby Bells, plus IBM's first profit in six quarters, make analysis of BUSINESS WEEK's flash report of fourth-quarter profits tricky. Earnings for the 84 companies tracked were up 51% from a year earlier. But take out IBM, and they fell 4%. Then again, if you also remove the Baby Bells—three of which took restructuring charges—*voilà*, an 11% increase. Sales are up only 2% overall—but they climbed 6% if oil companies, facing ever-falling prices, are excluded.



FASHION TRENDS

PUMPING NO-IRON SLACKS

Haggar's earnings turnaround shows what a hot product can do

The men's fashion houses: Armani, Versace, Ralph Lauren, Haggar Corp. True, Haggar isn't the cutting edge. The Dallas-based company has made its name with solid, dependable duds for The Average Guy. But this year, while Seventh Avenue flaunts strong lines remarkable for their designed-in, unironable wrinkles, Haggar is cleaning up by selling Middle America just the opposite.

Haggar introduced its line of cotton slacks, treated with a baked-on chemical finish to resist wrinkling after washing, late in 1992. Now, wrinkle-free is exploding. It's no mystery why: The new material saves ironing time and cuts the cost of dry cleaning. "I think this is fantastic," raves retired schoolteacher Jo Paschall, 64, shopping with her husband George at the Dillard's department store in Mesquite, Tex. She picked a pair of wrinkle-free Haggar's simply "to keep from ironing."

Indeed, wrinklelessness is very, very big for Haggar. No-iron slacks sent the company's profits soaring eightfold in the first fiscal quarter, ended Dec. 31, to \$4.5 million. Sales, at \$110 million, were up 34%. In the year ended Sept. 30, profits rose 33%, to \$15 million, on \$394 million in sales.

It could get much bigger. Americans

buy some 90 million pairs of men's cotton slacks annually, and retailers say the wrinkle-free portion of that pile represents the fastest-growing segment in men's apparel. "Consumer demand has been huge," says Jack Fleischer, director of men's merchandising at J.C. Penney, where no-iron brands now account for more than 30% of men's casual-pant sales.

Last year, Haggar shipped 2.1 million no-iron pairs. Analyst Brenda Gall of Merrill Lynch & Co. figures the company will sell 10 million pairs in fiscal 1994. It already has rushed no-iron versions of its corduroy and gabardine slacks to stores, and will produce shirts and boys' pants later this year. That, Gall says, will help push Haggar's 1994 profits up 65%, to \$24.8 million, on a sales gain of 19%, or \$470 million.

Competitors Levi Strauss & Co. and

Current qtr. sales
(Millions)

INDUSTRIALS	170,096.5
ABBOTT LABORATORIES	2,228.0
ALCOA	2,310.8
AMOCO	7,382.0
BOEING	5,656.0
BOISE CASCADE	996.9
BORDEN	1,469.8
BRISTOL-MYERS SQUIBB	2,992.8
CATERPILLAR	3,168.0
CHAMPION INTERNATIONAL	1,300.2
CHEVRON	8,913.0
CHRYSLER	11,952.0
CORNING	1,083.0
DUPONT	9,251.0
EXXON	27,843.0
GENERAL ELECTRIC	18,087.0
INLAND STEEL INDUSTRIES	978.3
INTERNATIONAL PAPER	3,412.0
KELLOGG	1,566.2
MCDONNELL DOUGLAS	3,629.0
MERCK	3,000.8
MOBIL	16,859.0
MONSANTO	1,882.0
PFIZER	1,989.2
PHILIP MORRIS	14,714.0
PPG INDUSTRIES	1,378.2
QUAKER OATS ++	1,353.9
REYNOLDS METALS	1,353.2
TELEDYNE	632.9
TEXACO	8,575.0
USX-U.S. STEEL GROUP	1,548.0
WEYERHAEUSER	2,591.3
SERVICES	32,601.6
AMERICAN EXPRESS	3,708.3
AMR	3,591.0
BANC ONE	NA
BANKAMERICA	NA
BANKERS TRUST NEW YORK	NA
BURLINGTON NORTHERN	1,246.0
CAPITAL CITIES/ABC	1,755.1
CHASE MANHATTAN	NA
CHEMICAL BANKING	NA
CITICORP	NA
CSX	2,315.0

% chg.	Est. EPS (11/18)	Reported EPS	Diff.
-3	0.89	0.87	-0.02
+12	0.48	0.48	—
NM	0.19	-0.20*	-0.39
+7	0.86	1.17	+0.31
-15	0.83	0.89	+0.06
NM	-0.80	-0.98	-0.18
NM	0.02	-0.92	-0.94
NM	1.12	1.10*	-0.02
NM	0.84	1.46	+0.62
NM	-0.43	-0.41	+0.02
-73	1.47	0.91	-0.56
+118	1.49	2.11	+0.62
NM	0.39	0.42*	+0.03
NM	0.56	0.35	-0.21
+7	1.01	1.20	+0.19
+22	1.68	1.73	+0.05
NM	0.11	-0.79	-0.90
NM	0.62	0.81	+0.19
+17	0.64	0.66	+0.02
NM	3.08	-3.36	-6.44
+11	0.59	0.56	-0.03
-32	1.29	0.84	-0.45
NM	0.40	0.49	+0.09
+4	1.00	0.90	-0.10
-72	1.02	0.90*	-0.12
-21	0.80	0.51	-0.29
-24	0.78	0.63	-0.15
NM	-0.33	-0.31*	+0.02
+51	0.47	0.28	-0.19
+2	1.07	1.25	+0.18
NM	0.44	1.67	+1.23
+19	0.47	0.50	+0.03
+50	1.03	1.14	+0.11
+14	0.71	0.57	-0.14
NM	-0.07	-2.65*	-2.58
+39	0.84	0.82	-0.02
+5	1.23	1.21	-0.02
+110	2.43	3.26	+0.83
+6	1.28	1.25	-0.03
+21	10.20	10.35	+0.15
+85	1.04	1.53	+0.49
+14	1.14	1.23	+0.09
+105	0.90	1.16	+0.26
-1	1.52	1.46	-0.06

available NM = not meaningful
 STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INC.

	Current qtr. sales (Millions)	% chg.	Qtr. profits (Millions)	% chg.	Est. EPS (11/18)	Reported EPS	Diff.
DEAN WITTER, DISCOVER	1,518.6	+14	138.5	+60	0.87	0.81	-0.06
DISNEY (WALT) †	2,727.3	+14	368.6	+34	0.57	0.68	+0.11
FEDERAL EXPRESS ††	2,121.5	+8	59.7	+69	0.95	1.07	+0.12
FIRST CHICAGO	NA	NA	172.8	+27	1.34	1.81	+0.47
HILTON HOTELS	370.0	+10	32.3	+22	0.60	0.67	+0.07
MERRILL LYNCH	4,526.1	+39	347.2	+57	1.38	1.53	+0.16
MORGAN (J. P.)	NA	NA	392.0	+77	1.63	1.92	+0.29
NATIONSBANK	NA	NA	373.0	+59	1.32	1.37	+0.05
PAINEWEBBER GROUP	1,075.8	+29	56.9	+37	0.91	1.11	+0.20
ROADWAY SERVICES	1,376.8	+21	42.7	-17	1.11	1.08	-0.03
SCHWAB (CHARLES)	291.2	+28	28.5	+13	0.48	0.48	—
SUNTRUST BANKS	NA	NA	119.2	+33	0.97	0.97	—
TRAVELERS	2,195.3	+73	297.9	+35	0.94	1.19	+0.25
UNION PACIFIC	1,981.0	+3	235.0	+22	1.19	1.14	-0.05
USAIR GROUP	1,802.5	+10	-116.5	NM	-1.66	-2.29	-0.63
WELLS FARGO	NA	NA	190.0	+228	2.75	3.18	+0.43
TECHNOLOGY	44,004.8	+8	1,970.9	NM	0.76	0.65	-0.11
ADVANCED MICRO DEVICES	413.4	+3	41.6	-40	0.63	0.41	-0.22
APPLE COMPUTER †	2,468.9	+23	40.0	-75	0.34	0.34	—
COMPAQ COMPUTER	2,202.0	+55	151.0	+70	1.49	1.74	0.25
CONNER PERIPHERALS	574.4	-7	8.5	0	-0.45	0.17	+0.62
GENENTECH	150.9	+15	18.7	+201	0.12	0.16	+0.04
HONEYWELL	1,620.1	-5	112.6	+251	0.84	0.85	+0.01
IBM	19,396.0	-1	382.0	NM	0.56	0.62	+0.06
INTEL	2,389.0	+29	594.0	+39	1.40	1.35	-0.05
LOTUS DEVELOPMENT	278.3	+13	29.6	+103	0.58	0.64	+0.06
MICROSOFT ††	1,129.0	+20	289.0	+22	0.94	0.95	+0.01
MOTOROLA	4,993.0	+35	340.0	+88	1.02	1.15	+0.13
RAYTHEON	2,517.0	+5	185.4	+9	1.35	1.37	+0.02
SUN MICROSYSTEMS	1,130.7	+8	43.8	+82	0.45	0.46	+0.01
UNISYS	2,101.1	-7	117.7	+16	0.46	0.53	+0.07
WESTINGHOUSE ELECTRIC	2,641.0	+3	-383.0	NM	0.29	-1.11	-1.40
UTILITIES & TELECOM	28,637.3	+4	148.2	-94	0.71	0.68	-0.03
AMERICAN ELECTRIC POWER	1,331.0	+3	159.3	-7	0.78	0.79	+0.01
AMERITECH	3,016.3	+6	398.2	+19	0.67	0.73	+0.06
BELL ATLANTIC	3,317.2	+1	337.2	+3	0.84	0.77	-0.07
BELLSOUTH	4,124.8	+5	-252.6	NM	0.89	0.98*	+0.09
NYNEX	3,392.9	+2	-1242.0	NM	0.81	0.64*	-0.17
PACIFIC GAS & ELECTRIC	2,707.2	+6	208.4	+1	0.60	0.45	-0.15
PACIFIC TELESIS GROUP	2,297.0	+1	-405.0	NM	0.74	0.62*	-0.12
PECO ENERGY	941.8	-4	138.9	-10	0.56	0.58	+0.02
SOUTHERN	1,945.0	+4	155.8	-6	0.44	0.41	-0.03
SOUTHWESTERN BELL	2,898.1	+6	385.9	+10	0.68	0.64	-0.04
U S WEST	2,666.0	+6	264.1	+1	0.74	0.62	-0.12

† First-quarter results

†† Second-quarter results

* EPS adjusted for special items

Corp.'s Lee unit both "completely sed the boat on this innovation, and they're playing catch-up," says Alan Millstein, a New York apparel consultant and editor of the newsletter *Fashion work Report*. But they're catching up. Lee, which produced its first wrinkle-free pants last summer, expects to sell some 6 million pairs this year. Levi roll out no-iron versions of its popular Dockers line nationally for Father's Day. Robert Hanson, Dockers' director of marketing, insists that the \$6 billion apparel giant "will get our share of the market."

Haggar has fought this battle before. It quickly lost the top spot in the \$3 billion casual-slacks market when Levi created the first Dockers in 1986. "Levi forced us to look at a competitive advantage," says Hank D. Bracken, Haggar's execu-

tive vice-president. The company found it in the wrinkle-free concept introduced by apparel maker Farah Inc. in 1989. Farah lacked the cash to market its innovation effectively; Haggar put \$20 million into advertising, and the slacks flew. Now, Farah is catching some of the windfall. Its



fourth-quarter profits grew 184%, to \$3.4 million, on \$59 million in revenues.

Haggar hopes to protect its early lead by spending an additional \$25 million on advertising this year. It's also pushing aggressively into Japan, Canada, Mexico, and Britain. But Levi Strauss boasts that it will account for 70% of all marketing dollars spent in the wrinkle-free segment around Father's Day. Plus, big-time shirtmakers Phillips-Van Heusen Corp. and Arrow Shirt Co. plan heavy advertising for the lines they will launch in June, starting what could be an even bigger battle in men's upperwear. With the wrinkle-free business so crowded, Haggar will have to press to stay on top.

By Stephanie Anderson Forest in Dallas

HOW DEC'S 'MINICOMPANIES' LED TO MAJOR LOSSES

Red ink dooms an innovative structure just recently adopted

Just 14 months ago, Robert B. Palmer was pulling raves for pursuing one of the computer industry's most daring strategies. The 53-year-old chief executive at Digital Equipment Corp. launched a remake of the troubled company with a radical reorganization. He divided the \$14 billion Goliath into autonomous minicompanies organized by customer type, the better to anticipate buyer needs. "This is not a temporary change," Palmer pledged at the time.

Or so he thought, until a \$72 million loss for the quarter ended Jan. 1 junked his restructuring. The red ink having destroyed DEC's hopes for turning a profit for the fiscal year ending July 2, DEC's board decided to abandon the CEO's new structure in favor of a conventional organization in which the company is built around product groups. **"UNHAPPY."** The retrenchment is a clear repudiation of Palmer's strategy. Board members, who ousted DEC founder Kenneth H. Olsen two years ago, insist they're sticking with Palmer, who landed DEC's top job in October, 1992. "The board has a lot of confidence in Bob and the team he put together," says Vernon R. Alden, an outside director.

But if DEC doesn't regain profitability soon, Wall Street analysts contend, Palmer's job could be in jeopardy. "The board's real unhappy," says Salomon Brothers Inc. analyst John B. Jones Jr. The pressure is building fast: Investors have been dumping DEC's stock, which has hovered at 31 since the loss was announced on Jan. 19—20% below its price when Palmer took over. And some big shareholders think getting DEC back on track will take some time. "I'm pessimistic," says Robert Spremulli, investment officer at major shareholder



PALMER: A SALES FOCUS ON HIGH-END MACHINES CAME TOO LATE

TIAA/CREF, a teachers' retirement fund. "The long-term dynamics are poor."

As Palmer has faltered, his No. 2, Edward E. Lucente, worldwide sales and marketing vice-president, has become stronger. Indeed, reports—denied by DEC—are circulating inside the company and on Wall Street that Lucente soon will be named chief operating officer and president, becoming Palmer's designated heir. Lucente's responsibilities already nearly correspond to such a position. Under the reorganization, the former IBM sales executive, who joined DEC a year ago, now is responsible for units that account for 80% of DEC's product revenues. Neither Palmer nor Lucente would comment. But CFO William M. Steul downplays the move, calling it "fine-tuning."

How will the reorganized DEC work? Instead of selling packages of computers, software, and services through units organized by customer type, DEC now will be divided into units that sell

specific product lines, such as workstations, servers, and software. The problem with the old approach, to be scuttled on Apr. 1: It combined low-margin products and high-margin service undermining sales of each, says Dekkers Davidson, a partner at consultant Mercer Management Consulting Inc.

MORE FALLOUT. Indeed, Palmer's business strategy ran smack into a major shift in the computer industry. The rise of standard hardware and software customers cheaply knit together systems from various vendors. Palmer thought he could buck the trend by getting closer to customers and convincing them to buy complete systems. But DEC wound up winning fewer and fewer contracts. "DEC's business focus is not in sync with how people are buying today," says I. Shapiro, president of Metamor Technologies Ltd., a consulting and software development company.

Palmer's minicompanies faltered almost from the start. Most of the key executives involved grew up in DEC engineering departments without significant sales experience. "Unfortunately, many of the people knew nothing about the industries they were put in charge of," says a senior DEC manager. DEC product sales steadily worsened as the plan went into effect last July (chart).

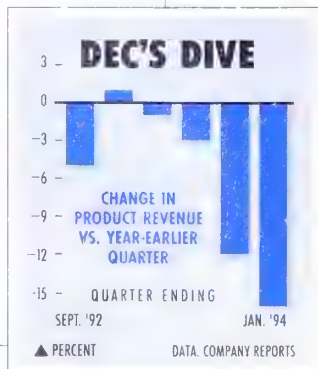
The turning point came in September, when sales of DEC computers priced above \$200,000 fell sharply. Palmer then went before the company in a video broadcast, appealing for a sales focus on moving high-price Alpha AXP computers as well as consulting and service contracts. Soon thereafter, Palmer expanded Lucente's duties, and Lucente tried to whip up sales with aggressive pricing of key Alpha AXP computers.

Both efforts came too late. Jones estimates that only \$10 million of some \$150 million in Alpha AXP sales for fiscal second quarter, ended Jan. 1, were high-margin "server" machines. The vast majority were low-price workstations. There's more fallout to come. Even if Palmer meets his goal of cutting employment to 85,000 by July, from 92,300 now, declining revenues could force more

restructuring, Wall Street analysts say. And Jones figures DEC will lose \$100 million more in the quarter ending Mar. 26.

The bottom line? Palmer, who a year ago pledged to save DEC 90,000 jobs, now must wonder if he can keep his own.

By Gary McWilliam in Boston





CEO HUDSON AT A LENS CRAFTERS CENTER: DOES HE HAVE THE REQUISITE RETAIL SAVVY?

U.S. SHOE IS HELL-BENT FOR LEATHER

In the skids for nearly a decade, it may finally see a turnaround

While it's certainly down-at-the-heels, U.S. Shoe Corp. seems an odd target for the California Public Employees' Retirement System, the giant pension fund. On Jan. 18, CalPERS announced it was adding U.S. Shoe to the list of underperforming companies it is pressuring to do better. Sure, the Cincinnati-based owner of Casual Corner, LensCrafters, and such shoe brands as Easy Spirit and Bandolino has seen its sales stagnate, its operating profits lunge, and its dividend wither. But recent moves by CEO Bannus B. Hudson, including a reorganization announced on Jan. 26, have already convinced other large shareholders that U.S. Shoe is finally on the mend.

Why the optimism, which has sent U.S. Shoe's long-battered stock up 59%, about 14, in the past six months? Since last spring, Hudson and new Chairman Charles S. Mechem Jr. have been shaking up the dowdy old company, replacing legions of top executives and managers with outsiders recruited from J.H. Macy, Toys 'R' Us, Dayn-Hudson, and Nine West group. Last fall, Mechem and her insiders bought sizable blocks of U.S. Shoe stock to underscore their bullishness. By the third quarter, U.S.

Shoe's earnings, excluding a charge, were up 44%, to \$12 million, on sales that were flat at \$677 million. "I have a pretty high level of confidence," says Marina T. Carlson, whose Strong Common Stock Fund owns 800,000 shares.

Even CalPERS is guardedly optimistic, though it's sticking by its decision to agitate for better performance and changes in corporate governance. The pension fund has held a sizable stake in the company for more than a decade, and CalPERS General Counsel Richard H. Koppes notes that it is "always on the verge" of better days. "That's why we're not going to go away for a while," he says. Koppes met with U.S. Shoe's outside directors on Jan. 12 to push for more change.

CalPERS' skepticism is warranted. For all its recent steps in the right direction,

U.S. Shoe has flirted with recovery several times before—with no lasting results. In the four years since he got the top job, Hudson, a former Procter & Gamble Co. manufacturing executive who once ran U.S. Shoe's LensCrafters business, has taken a restructuring charge, closed four factories, shuttered 922 retail stores, and folded the Liz Claiborne, Leslie Fay, and Adrienne Vittadini shoe brands. He also closed down T.H. Mandy, Caren Charles, and five other retail chains. His Jan. 26 reorganization included an additional \$14.5 million charge for more cost-cutting and layoffs.

"SCREWED UP." Hudson clearly needed to make his latest move. The numbers prove that: From 1989 to 1993, sales rose 4%, to about \$2.7 billion, but operating profits fell an astonishing 93%, to an estimated \$7.4 million. Outsiders largely blame longtime CEO and Chairman Philip G. Barach, who resigned his chairman's post in March, for what ails the company. Analysts say Barach fought change tooth and nail. "New management dates from the day Barach resigned," says Ladenburg, Thalmann & Co. analyst Barry Bryant. While U.S. Shoe is "under intense pressure" from CalPERS, Bryant adds, "the irony is that this management is fixing what the last management screwed up for 10 years."

Barach, who was CEO for 22 years, offers no apologies. In fact, he seems almost gleeful when discussing his former company's dire situation. While asking that he not be viewed as "some sour or old disgruntled ex-CEO anxious to get into harness and desperate for power," he questions the prospects for a turnaround and obliquely calls for Hudson's ouster. To underscore his disdain, in October Barach sold 15,000 U.S. Shoe shares—all he owned except for a few locked up in a retirement plan—at 10%, not far above the 10-year low.

There are others who aren't so sure Hudson has the right stuff. Hudson lacks a merchandising background, and retailing consultant Kurt Barnard questions his ability to create the merchandising magic needed by a chain like Casual Corner or by fashion-sensitive shoe brands like Evan Picone and Bandolino. "Hudson is a very good man," says Barnard, "but he doesn't have the understanding of consumer mentality that is so essential."

But by hiring a fresh crop of executives and managers, Hudson has put U.S. Shoe back in the race. Now, all he has to do is prove he can make the company a winner—with a little prodding from CalPERS.

By Elizabeth Lesly in New York

IF THE SHOE DOESN'T FIT...

How CEO Bannus Hudson plans to get U.S. Shoe back on track:

- ▶ **MANAGEMENT SHAKEUP** Hired 13 new key executives; outsiders now represent almost half of U.S. Shoe's top management
- ▶ **DIVESTITURES** Sold off the company's struggling Caren Charles and Ups 'N Downs apparel chains
- ▶ **COST-CUTTING** Shuttered unprofitable Casual Corner stores, cutting the number by 7%, to 720, in three years
- ▶ **REORGANIZING** Will take a \$14.5 million charge for layoffs and cost-cutting, to shave \$25 million from overhead.

DATA: COMPANY REPORTS, UBS SECURITIES INC.

MITT ROMNEY COULD BE TEDDY'S BUGBEAR

The GOP newcomer will spend big in the Massachusetts Senate race

He's rich. He's handsome. He's the scion of a famous family. And he's gunning for office in Massachusetts. But—surprise—he may be running *against* a Kennedy.

Meet Mitt Romney, son of George Romney, former American Motors Corp. chairman and Michigan governor, who tried for the GOP Presidential nomination in 1968. On Feb. 2, the younger Romney plans the official launch of his campaign for the U.S. Senate. If he wins the Republican nomination—and most pundits say he has a good shot—he will face Senator Edward M. Kennedy in November. Even Romney admits it will be “an uphill battle.” But Massachusetts has turned more conservative lately, and the Republicans think Kennedy could be vulnerable after 32 years in office.

Willard Mitt Romney, 46, could hardly offer a greater contrast to the rumbustious Kennedy. A devout Mormon who doesn't drink and is married to his high school sweetheart, Romney has spent the past decade as chief executive of Bain Capital, a Boston venture-capital firm affiliated with consultancy Bain & Co. But Romney says he has long harbored political ambitions. “I’ve always remembered the advice that Dwight Eisenhower gave my father,” he says. “Don’t get involved in politics until our kids are raised and you’ve established a firm base of finances.”

STEADY HAND. Romney's base is firm indeed. He has socked away a small fortune building Bain Capital by backing such success stories as office-supply giant Staples Inc. He has also won a reputation as a steady hand in a crisis. Indeed, when Bain & Co. found itself on the

verge of bankruptcy in late 1990, it turned to Romney as its new CEO.

The situation, recalls one financier involved, was “nearly hopeless.” Romney persuaded 15 top consultants to stay for 18 months, keeping the company intact while he helped forge a restructuring deal between prickly Bain founders and angry bankers. Romney ended his role last year, and today Bain is on the up-

THE ROMNEY LEGACY



The Early Years...

Mitt, with father George Romney, circa 1963. The elder Romney was CEO of American Motors in the 1950s and governor of Michigan in the 1960s. In 1968, he lost a bid for the Republican Presidential nomination.

Today...

Romney, 46, earned a law degree and an MBA from Harvard. CEO of Bain Capital, he has been drumming up support in Massachusetts for a U.S. Senate seat bid.

swing. “Mitt saved our company,” says Thomas J. Tierney, Bain's worldwide managing director.

Friends and colleagues say Romney is the opposite of the stereotypical politician. “When he gives you his word, you believe it,” says John C. Rutherford, a former Bain & Co. director. “Ethics are a very important part of his definition of what a man is supposed to be.” And stories about Romney's generosity abound. One neighbor, Douglas D. Anderson, recalls that when his

house caught fire five years ago, Romney arrived before the fire trucks. He organized neighbors to rescue prized belongings, then insisted the Anderson family stay at his house for weeks.

LONG ODDS. Romney intends to focus his campaign on two issues: jobs and the economy. “We need people in the Senate who know how to create jobs how to build and fund small businesses,” he says. Describing himself as “fiscally conservative and socially innovative,” he lambastes Kennedy as the standard-bearer for the social programs “that have been a disaster for this country.” Romney says he wants welfare program that “don’t subsidize children having children” and educational reform that stresses “discipline and basic American values like respect for others and abhorrence of violence.”

The political neophyte faces long odds. First, Romney must win the September primary, where he is the current front-runner but faces tough opposition. If he wins, he'll meet Kennedy in a state where registered Democrats outnumber Republicans 3 to 1. Kennedy obliterated his 1988 opponent, Joseph D. Malone, 63% to 33%. “Beating Ted Kennedy is about as likely as Sharon Stone calling me for a date,” says Boston Democratic consultant Michael A. Goldman.

But the race promises to be much closer than in 1988. With his connections and deep personal pockets, Romney hopes to raise about \$7 million, several times what Malone spent in 1988. Moreover, Republican Governor William F. Weld, who has cut taxes and

spending, will be heading the state ticket in November. And most voters are focused on the state's still-struggling economy, not on the social-welfare issues Kennedy has championed.

Romney has been informally stumping for weeks, and his formal kickoff will be a speech on Groundhog Day. He jokes: “If I see my shadow, we get six more years of Ted Kennedy.” If not, Kennedy may finally have a real political fight on his hands.

By Mark Maremont in Boston

9! 95! —HIKE!

The NFL goes for the long bomb with a new World League

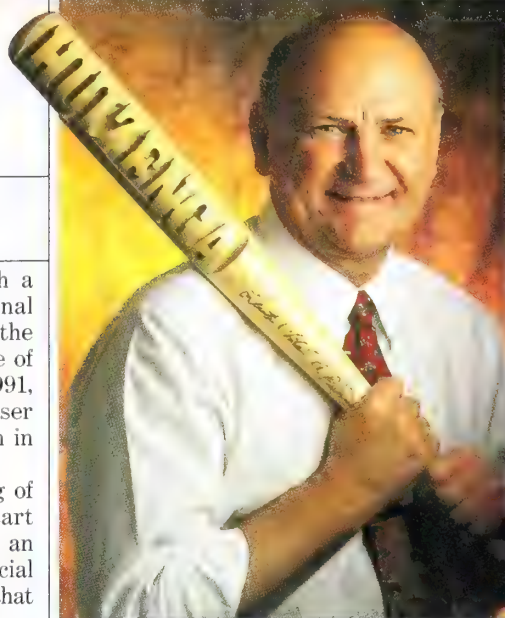
The first time it tried to launch a progeny overseas, the National Football League got lugged off the field on a stretcher. Its World League of American Football, created in 1991, proved popular in Europe but a loser at home. The final score: \$45 million in red ink and a lot of lost credibility.

Now, it's comeback time. By spring of 1995, a new World League will start play with a trimmed-down budget, an all-European lineup, and new financial backing. BUSINESS WEEK has learned that the NFL owners are set to approve two new equity partners: Viacom International Inc.'s MTV Europe and Capital Cities/ABC Inc.'s ESPN International. The NFL won't disclose how much is being invested—although the total, including the NFL's share, is expected to be less than \$100 million.

REWORKS. It's a big gamble for the NFL. Another international flop could damage the league's image. And while basketball and baseball are both finding audiences overseas, pro football's attempt to build an international presence bringing mixed results. Television ratings for American football have declined in some markets, as has attendance at last season's "American Bowl" games. And while sales of NFL-licensed merchandise continue to climb, to some \$300 million a year, recession in Europe and Japan has flattened growth.

The new World League will try to restore football's status—while avoiding the mistakes made last time. To avoid cost overruns, it will limit salaries, to about \$30,000 for the average lineman, and attract sponsorship money. Owners will rely mostly on gate receipts from the league's six teams for revenue. Oddly, neither MTV nor ESPN is expected to actually broadcast the games. Instead, Viacom will fashion a hip marketing image; ESPN will get involved in production planning and broadcast negotiations.

The NFL will add in such high-wattage acts as fireworks, marching bands, and cheerleaders to draw crowds, and is negotiating with Coca-Cola Co. and McDonald's Corp., among others, to sign on as sponsors. Those backers will have to be patient: Football in Europe likely won't catch on just a few yards at a time. *By David Greising in Atlanta, with frequent reports*



HUIZENGA OFTEN GETS WHAT HE WANTS, BUT, IN THIS CASE, IMPORTANT ECOLOGICAL AND FINANCIAL QUESTIONS REMAIN

BLOCKBUSTER, THE PARK?

Wayne Huizenga has big plans for a Florida "entertainment village"

Visitors driving along I-75 as it crosses 2,600 acres of scrubby marshland southwest of Fort Lauderdale sometimes spot alligators, egrets, and other Florida fauna. But if H. Wayne Huizenga has his way, folks will someday stop to watch Marlins, Panthers—maybe even Dolphins—and pay Blockbuster Entertainment Corp. big bucks for the pleasure.

Huizenga is planning a huge sports-and-entertainment complex dubbed Blockbuster Park. The project, which could cost a total of \$1 billion in public and private investment, would be anchored by a hockey arena on one end and a baseball stadium on the other—new homes to Huizenga's Florida Panthers and Florida Marlins hockey and baseball teams. Linking them would be an "entertainment village" featuring restaurants, shops, a film-and-television production studio, and a theme park.

On Jan. 28, Blockbuster will start the long process of dickering with regional officials about conditions for approvals for the project. If it comes off, the park will become another element in Huizenga's effort to transform Blockbuster from a video retailer into an entertainment conglomerate. It would fit in nicely with the company's impending merger with Viacom Inc., especially if Viacom succeeds in taking over Para-

mount Communications Inc., which owns five regional theme parks. That's what Huizenga calls synergy.

And just six miles east of Blockbuster Park sits another potential synergy—Joe Robbie Stadium and the Miami Dolphins football team. Huizenga, who bought 15% of the Dolphins and half of the stadium in 1990, announced on Jan. 24 that he wants to buy the remainder of the team from the Robbie family in a deal that values the National Football League franchise at \$138 million. He also signed an option to buy the Robbies' 50% interest in the stadium,

where his Marlins now play.

Huizenga says the timing on his Dolphins purchase is coincidental. But the deal, if approved by other NFL team owners, dovetails with his Florida empire. Huizenga believes the region's 3 million Marlins fans, plus millions of Panther and Dolphins fans in close proximity, will provide a year-round base of attendance for Blockbuster Park's other facilities. "What do you think of in a sports team? I think of [it as] software," Huizenga says.

FRIENDS AND FOES. Still, the park has plenty of hurdles to clear. Environmental concerns, for one. "It's very close to the Everglades," says Richard Grosso, legal director for 1000 Friends of Florida, an environmental organization. The location raises fears that overdevelopment could damage the wetlands' delicate ecology. And exactly how the project will be financed—and whether it will get special tax breaks—is also unclear.

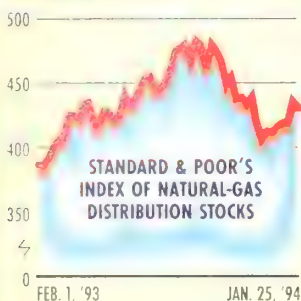
There's opposition, too, to Huizenga's NFL bid. The NFL prohibits majority team owners from holding other professional sports franchises. Huizenga is seeking a temporary exemption until owners vote on the issue on Mar. 20. Some owners support Huizenga, but others, such as Buffalo Bills owner Ralph C. Wilson Jr., are opposed—even to a temporary change. "I don't think any exemption should be granted for expediency purposes," Wilson says.

The NFL is a clubby organization that doesn't change its ways easily. But Huizenga usually manages to get what he wants—even if he has to overcome an Old Boys' network and a marshland full of environmentalists.

By Gail DeGeorge, with Fernando Battaglia, in Miami

EDITED BY KEITH H. HAMMONDS

CLOSING BELL



COOKING WITH (NATURAL) GAS

When the nation's 1.2 million miles of natural-gas pipeline were deregulated in November, many feared the result would be poor service at peak delivery times. It hasn't happened. In fact, the industry survived the record January cold with almost no significant supply disruptions, thanks to strong shipments from Canada and well-stocked storage facilities. Barring new setbacks, natural-gas demand should rise 3% this year, to 20.7 trillion cubic feet.

DATA: BRIDGE INFORMATION SYSTEMS INC.

A FED CANDIDATE HITS A WALL

The Administration's top candidate for a seat on the Federal Reserve is facing new scrutiny that could derail his nomination. George Perry's wife, Dina Needleman Perry, is a portfolio manager for American Funds Group, a mutual fund company. White House lawyers say the arrangement doesn't violate conflict-of-interest rules. But Clinton aides admit there may be an "appearance problem" with a Fed governor whose spouse's work is so affected by interest-rate policy. Needleman Perry wouldn't comment. But insiders say Perry's nomination is now in "a holding pattern."

KODAK ZOOMS IN ON BARGAIN PICS

Trying to stem its loss of market share to private-label and Fuji Photo Film, Eastman Kodak is making a risky move into bargain film. The new line, called Kodak Funtime, will be priced 15% to 20% below its core Gold films but just above most private-label products. Kodak has been widely discounting the Gold line, and company marketers hope the new brand will stop dilution of its mainstay while staving off cheaper rivals. But analyst B. Alex Henderson at Prudential Securities said the move could backfire if rivals also cut prices.

THE SEC'S NEW MARKET DESIGNS

Traditional stock exchanges won't be at all pleased with the Securities & Exchange Commission's long-awaited blueprint for a new market structure. In its Market 2000 study, SEC staff have recommended changes to a long-standing New York Stock Exchange rule that bars members from trading stocks listed elsewhere. The SEC also rejected proposals that would

SEE THE SIMPSONS RUN—AND RUN AND RUN

Is the world ready for Marge Simpson five days a week? Does the world have a choice? Come 1995, Marge and her animated brood from Fox Broadcasting Co.'s *The Simpsons* will head into reruns. So will Walt Disney's hit sitcom *Home Improvement*. After years of weak demand for syndication, these two shows are hot: *The Simpsons* should fetch a total of \$2 million per episode and *Home Improvement* \$3 million.

The rerun market has been in a funk since 1986, when TV stations paid mightily for *The Cosby Show*—only to be disappointed when ratings didn't



justify the price. Now, those deals for *Cosby* and other high-priced shows have expired and stations have cash to spend on newer fare. And the prospect of 500 channels has some programmers convinced they must spend for shows that will stand out.

Another offering that should do just that: *Seinfeld*. Distributor Columbia Pictures Television has been dangling the show before TV-station buyers for months. Expected to rerun in 1995, *Seinfeld* could fetch more than \$2 million an episode.

By Ronald Groves

heavily regulate the automated systems, which it said have been good for investors.

BETHLEHEM STEEL SHARPENS ITS AX

No more I-beams for Bethlehem Steel. Faced with strong competition from minimills, the No. 2 steelmaker announced on Jan. 26 a \$350 mil-

lion pretax charge against fourth-quarter earnings, much of it to trim its structural products division. The action will cost 500 jobs in Bethlehem, Pa., only months after the company signed a six-year contract, with job security clauses and hefty lay-off benefits, with the United Steelworkers. Just last June, Bethlehem announced a plan to invest \$100 million to modernize the division. But a big rival, Nucor's joint venture with Japan's Yamato Kogyo, doubled capacity, punishing price

PHOTO FINISH



WOOD STOCKS: NEW DEMAND FROM REBUILDING IN LOS ANGELES IS SENDING LUMBER PRICES STILL HIGHER

ET CETERA

- A U.S. sedan—the Dodge Intrepid—finally won *Consumer Reports'* top ranking.
- KKR-controlled Flagstar will take a \$1.7 billion charge to close 270 restaurants.
- Gitano said it would put itself up for sale, after Wal-Mart pulled its business.
- The old name: NCR. The new name: AT&T Global Information Solutions.

TO KNOW WHAT CARS AND TRUCKS WILL BE LIKE IN *2005* TALK TO THE PEOPLE WHO *LIVE THERE.*

BUCKLE UP-TOGETHER WE CAN SAVE LIVES



FORD DESIGNERS FROM LEFT TO RIGHT:
SUSAN K. WESTFALL, DAVID HILTON, GARY BRADDOCK, SOO KANG, PAUL AANONE, AARON WALKER

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WHY GREENSPAN IS GETTING AN ITCHY TRIGGER FINGER

These should be blissful times for Alan Greenspan. The economy is growing robustly, while inflation is holding at a comfortable 3%. So why are beads of sweat breaking out on the Federal Reserve chairman's brow? Because after leaving interest rates unchanged for 18 months—the longest period of stability in the central bank's history—the time to give rates an upward nudge is approaching quickly.

The move could come as early as the Feb. 3 meeting of the policy-setting Federal Open Market Committee. Fed sources say there's growing sentiment within the 12-member FOMC not to wait any longer to increase the "federal funds" rate that member banks charge each other for overnight loans. The rate, which has been at 3% since September, 1992, could rise by a quarter-point. "Several [members] believe it's time for some modest snuggling," says one source.

Surprisingly, even the Clinton Administration isn't worried that a small tightening move will hurt the economy, though it would prefer that the Fed acted later rather than sooner. The Administration's own 1994 forecast, due out in early February, will assume that short-term rates rise by 40 basis points this year.

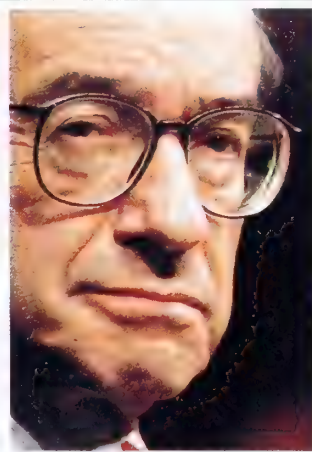
CLOSE CALL. The argument for higher rates now is that the Fed has to send financial markets a signal that it remains vigilant against inflation as growth accelerates and prices firm. Waiting too long might require more drastic action that could hurt the economy. "If you wait until you see the whites of the eyes of inflation, it's probably too late," says Fed Governor Lawrence B. Lindsey. He adds that conflicting data on inflation make it "a close call" whether to push for a rate hike now.

Inflation fears are fed by the fact that the consumer price index, excluding its volatile food and energy components, rose at a 3.4% rate in the last three months of 1993, up from

a 1.9% pace in the third quarter. Double-digit increases in the prices of gold and other commodities, such as steel scrap and lumber, and rising capacity utilization also provide warning signs.

The not-to-worry camp points to falling oil prices, slack global demand, and productivity gains that are holding labor costs down. "The back of inflation has been broken," declares Lehman Brothers Inc. chief economist Allen Sinai, who predicts the CPI will rise just 2% to 2.5% this year. But even with such a rosy forecast, Sinai thinks a quarter-point rise now would be a sound move to preempt inflation.

DOUBLE WIN? Of course, the Fed looks at more than economic considerations. Political concerns may prompt the FOMC to defer action until after Feb. 22, when Greenspan is scheduled to lay out his policy goals for the year before a House Banking subcommittee. Banking Chairman Henry B. Gonzalez (D-Tex.) is already on Greenspan's case over what he regards as the Fed's excessive secrecy in policy deliberations. The Texas populist will not be as understanding as the Administration about the need for a rate hike. And Greenspan, who is locked in an increasingly nasty fight with the Administration over a plan to consolidate



THE CPI WORRIES GREENSPAN

all bank regulation in the Treasury, needs Gonzalez' help.

But most Fed watchers think that if the economy continues to perk along, Greenspan won't hold off beyond March. The crucial question then will be the response of the credit markets. If, as many expect, bond traders celebrate the Fed's vigilance by pushing down long-term rates, the Fed and the Administration could both win. The central bank would polish its anti-inflationary credentials. And Clinton could be rewarded with an economy that remains buoyant beyond next fall's elections—perhaps even through 1996.

By Owen Ullmann

CAPITAL WRAPUP

LABOR

Lane Kirkland's seat next to Hillary Rodham Clinton at the Jan. 25 State of the Union speech is not the only sign of warming relations between the Administration and organized labor. The AFL-CIO president played a quiet but important role in persuading Polish President Lech Walesa to accept Clinton's new Partnership for Peace in lieu of membership in NATO. Kirkland and Walesa became close when the AFL-CIO provided financial and moral support for the Solidarity movement's fight against Poland's Communist government in the 1980s. Kirkland has also worked with the White

House to help pave the way for a Clinton visit to Warsaw after the July economic summit in Naples.

CIVIL RIGHTS

The White House seems finally to have settled on Boston attorney Deval Patrick to be the head of the Justice Dept.'s Civil Rights Div. But the leading candidate to chair the Equal Employment Opportunity Commission, New York labor lawyer Ida Castro, is likely to be dumped. Opponents have objected to her lack of experience in handling employment-discrimination cases. The White House is looking for another Hispanic to take the job.

REGULATORS

Securities & Exchange Commission Chairman Arthur Levitt Jr. faces an uphill battle to put his agency on a businesslike basis. Levitt says his top priority is to win the right for the SEC to set its own fees and to fund its operations out of the revenues it collects, rather than relying entirely on annual appropriations from Congress. The Food & Drug Administration has won limited self-funding powers. But Levitt's plan may be blocked by the Senate Budget Committee, where both Chairman Jim Sasser (D-Tenn.) and leading Republican Phil Gramm (Tex.) are opposed.

CRUNCH TIME IN RUSSIA

Yeltsin's new team is playing a risky game: They must stabilize the nation before public anger kills reform



CAN STATE INDUSTRIES BE MADE TO PAY THEIR WAY?

At Gosznak, Russia's government printing office, workers are busy oiling their presses. The machines are ready to churn out more money in 1994's first quarter than they did in all of last year, some believe. Set to go into circulation are new 100,000-ruble bank notes, double the highest denomination available today.

Say *do svidanya* to fiscal discipline in Russia. State bailouts are the first order for the new Cabinet that President Boris Yeltsin and Prime Minister Viktor Chernomyrdin are just about through installing. Heading the handout list is agriculture, which will get an immediate 4 trillion-ruble (\$258 million) kick for its

bloated empire of collective and state farms. Shuttered factories can expect Moscow to settle their debts. These moves are part of Chernomyrdin's scheme to revive an economy that has seen industrial production plunge 16% while budget deficits and unpaid bills approach 30% of gross domestic product.

There is much debate in Moscow on where this new policy team will lead. To outsiders, it is short on reformers and long on mediocre apparatchiks. They are "specialists in satisfying the interests of agricultural and industrial lobbies," says Anders Aslund, a former Yeltsin adviser.

But the health of Russia's economy depends on what policy Chernomyrdin pursues after the big bailout. If he can come up with a cohesive industrial policy, he may be able to stabilize Russia's battered industrial machine. An economic pickup could also help quell bitter public resentment of reform. Then, Russia might be better prepared for the tight-money policies pushed by former Finance Minister Boris Federov, whose resignation Yeltsin accepted on Jan. 26.

Already, the broad outlines of an industrial policy are emerging (table). Chernomyrdin's aides are talking about following up the bailout with selective state investments in transportation and telecommunications infrastructure. Since inflation is hurting Russia's ability to flood the world with cheap raw materi-

RUSSIA'S EMERGING INDUSTRIAL POLICY

BAILOUTS Print rubles so industry and agriculture can pay debts and salaries

TRY DISCIPLINE After initial bailouts, set new performance standards and cut off state funds if they are not met

PROJECT FINANCE More rubles for infrastructure, such as roads and telecommunications, and for export industries, such as oil and gas

VENTURE CAPITAL Offer state-guaranteed loans for a new crop of fast-growing private companies

TRADE Lower import barriers to spark competition at home and hold down inflation

DATA: BUSINESS WEEK

als, the vast but hobbled energy sector would get a big lift with investments aimed at boosting production and helping exports.

But skeptics abound. Even if the Cabinet sticks with a clear industrial policy, any progress may be done in by hyperinflation. Moreover, having Moscow bureaucrats pick industrial champions opens the door for more corruption.

Chernomyrdin is also portrayed as

determined to weed out inefficient factories, mines, and farms. After the big bailout in this year's first quarter settles debts, enterprises are supposed to go on a strict bottom-line basis. If they can't make it then, the new bankruptcy law is supposed to go into effect, and their assets will be sold off.

OPEN DOOR. Meanwhile, there is no indication that Chernomyrdin intends to obstruct Russia's fast-moving privatization program. About 40% of the work force now labors in private companies. The voucher auction program, through which many more enterprises will be sold off, is likely to continue until its scheduled completion in July. Chernomyrdin also wants to cut import barriers, reasoning that the ensuing flood of consumer goods will soak up extra rubles while forcing local producers to become more competitive.

The big unknown is what Chernomyrdin might do in order to bring inflation under control and to stabilize the ruble. He has hinted that he favors voluntary wage and price caps hammered out by labor and management. While Moscow is awash with rumors that he may opt for a fixed exchange rate, it may already be too late for that. There are now at least six currency exchanges in the country. Says Igor G. Doromin, chief of market research at the Moscow Interbank Currency Exchange: "If they try to enforce a fixed exchange rate, they will only create a much bigger black market."

Chernomyrdin's admirers, particularly foreign energy executives, praise the prime Minister as a "can-do" manager who will improve the nation's investment climate. But one wonders whether he will be able to get through the new parliament the sort of laws needed to reassure foreign investors. Hardly reassuring is the selection of a member of Vladimir V. Zhirinovskiy's xenophobic Liberal Democratic Party as head of the energy committee of the State Duma, or, worse, where the LDP could be in position to obstruct multibillion-dollar projects.

It's hard to avoid the conclusion that the new government looks like an unsettling throwback to Gorbachev's ineffective reform policies. Still, optimists point out that some reforms, such as privatization, have progressed far enough that it will be tough to return to a command economy. They also say that the new team consists of older individuals with the connections and clout to advance reform that the departed Yegor T. Gaidar and his cohorts lacked. It whether they will be so inclined is another question.

*By Peter Galuszka and Patricia Kranz
Moscow*

GERMANY



SIEMENS IS STARTING TO LOOK LIKE A CHIPMAKER

But the company's ailing computer division is still a mess

Credit Heinrich von Pierer with facing up to the truth. At a mid-January press conference, the chief executive of Siemens fielded questions about the company's massive losses in computers and semiconductors. The problem, he said, was simple: "We spend too much money on technology, and we don't earn enough from it."

Now, von Pierer, who took command in late 1992, is betting he can turn around both operations in two years (table). It's far from a sure thing. While the semiconductor division has made huge strides in high-performance chips, the computer business—Siemens Nixdorf Information Services—is lagging in technology and losing market share. In fiscal 1993, the two units together saddled Siemens with some \$500 million in losses, forcing operating profits down 9%, to \$1.8 billion, on sales of \$48 billion. Siemens has fortunately churned out profits in such areas as telecommunications and medical equipment. Yet margins are thinning in these robust divi-

sions, making it critical to stem the red ink in semiconductors and computers.

At least von Pierer has a good start in semiconductors, which provide the electronic guts used in other Siemens products and are sold to outside customers. Last year, the sizzling European chip market pushed Siemens' semiconductor sales up 21%, to \$1.5 billion. That's below the industry's average gain of 27% worldwide, but the company expects to start winning market share this year and turn a slim profit in 1995.

Siemens is now parlaying its hard-won strength in standard memory chips to excel in more customized memories

and application-specific integrated circuits. Experts such as Dataquest give Siemens high marks for the chips it has custom-designed for communications, video and television, auto electronics, and fiber optics. To finance new products, the company is cutting high research and development costs by cooperating with IBM and Toshiba Corp. It couldn't have clinched those alliances without

SIEMENS' TWO MAJOR TROUBLE SPOTS

Sales in billions

SIEMENS NIXDORF **\$7**

Losses at the computer maker since 1991, when Nixdorf was acquired. Slow to develop products and strategy for fast-changing computer market.

SEMICONDUCTORS **\$1.5**

Huge losses since 1984, when Siemens set out to catch the Japanese and the U.S., starting with the 1-megabit chip program. Late to market with 4-megabit technology, hurt by falling prices and weak demand.

DATA: BUSINESS WEEK

top-flight technology. "They've shown they have considerable design capability," says Toshiba board member and semiconductor chief Masanobu Ohyama.

If only prospects were as strong in computers. Instead, the \$7 billion Siemens Nixdorf division is floundering. It has one of the broadest product line-ups in the business, including PCs, mainframes, software, and services. Yet by offering so much, it has weakened its ability to succeed in any single market. No wonder the division's market share outside Germany is negligible.

Finally, despite the soup-to-nuts strategy, the Munich company still thinks like a mainframe maker. It has acquired few of the skills needed to succeed in the hot markets of personal computers, downsized client-server systems, and

notebooks. "They need a major marketing strategy and new partners to eliminate the smell of having been on the edge of death," says Gerhard Sundt, vice-president and director of European Network Services for the Gartner Group Inc. the U.S.-based market researcher.

Von Pierer has had enough of near-death experiences. In January, he took charge of Siemens Nixdorf's supervisory board. Next, he replaced top manager Hans-Dieter Wiedig with an outsider—a rare move at the inbred company. Taking over officially in September is ABB Asea Brown Boveri (Holding) Ltd.'s top U.S. manager, Gerhard Schulmeyer. Schulmeyer is expected to play the tough guy in the makeover.

Some isolated bright spots do await him. The new midrange Unix computers

are well regarded by analysts, and a new laser printer is considered the world's fastest.

But Siemens Nixdorf's prospects seem so dismal that Schulmeyer's best effort may only minimize the losses. Analysts say an effective cure would involve a drop in staff levels from 43,000 to about 25,000. That kind of self-inflicted pain is unknown at Siemens. If losses continue, as many expect, von Pierer may cut a deal, selling out, perhaps to a Japanese company. "1994 will be a watershed year for Siemens Nixdorf," says Chuck White, vice-president for information systems at Gartner Group. The industry is watching to see if von Pierer will face up to that truth, too.

By Gail E. Schares in Bonn, with Neil Gross in Tokyo

FRANCE

ARNAULT IS SHOPPING —FOR PERFUME, LUGGAGE...

After a \$1.9 billion windfall, LVMH's chief may be eyeing L'Oréal

In his office above Christian Dior's elegant Paris store, Bernard Arnault, France's "king of luxury," fairly gloats at the prospect of spending the \$1.9 billion that will soon fall into his lap. "We're going to buy more luxury companies," he promises, especially in cosmetics, perfume, and luggage. He's eager to add such products to the power brands of Givenchy, Moët & Chandon, and Vuitton—all already owned by LVMH Moët Hennessy Louis Vuitton, the company that Arnault runs as chairman and controlling stockholder. A choice target he's considering, some well-placed sources tell **BUSINESS WEEK**: French cosmetics giant L'Oréal.

That would be quite the purchase: At \$6 billion in sales, L'Oréal is 50% bigger than LVMH. But acquiring big-ticket items comes naturally to the 44-year-old Arnault, who turned a wreck of a textile maker into the world's largest luxury-goods conglomerate. The money comes from a stock deal announced on Jan. 20 with Guinness PLC, the British brewer and distiller. Guinness will sell its 24% stake in all of LVMH and buy 34% of Moët Hennessy, LVMH's champagne-and-cognac business. The swap adds \$1.9 billion to LVMH's coffers, while a separate company, Arnault-controlled

Christian Dior, buys Guinness' LVMH stake. Arnault will use the cash to cut debt until he lands a takeover.

L'Oréal may be that takeover. Arnault has avoided mass-market specialties, but he says: "I would buy a mass-market company if it's strongly established." In March, an agreement expires that blocks L'Oréal's sale by its



ARNAULT'S QUARRY: "MORE LUXURY COMPANIES"

two major owners, Swiss food giant Nestlé and French heiress Liliane Bettencourt. Arnault apparently covets Nestlé's 49% share of a holding company that owns 51% of L'Oréal. The problem, skeptics point out, is that Nestlé may not be selling. Neither is Bettencourt: But for a controlling stake in L'Oréal, Arnault would have to buy at least some

shares from the 71-year-old billionaire.

If L'Oréal doesn't pan out, analysts think Arnault might pursue French drug maker Sanofi, now owned by oil giant Elf Aquitaine. Last year, Sanofi bought fashion-and-perfume house Yves Saint Laurent. LVMH could keep Sanofi's cosmetics and perfume and sell the rest.

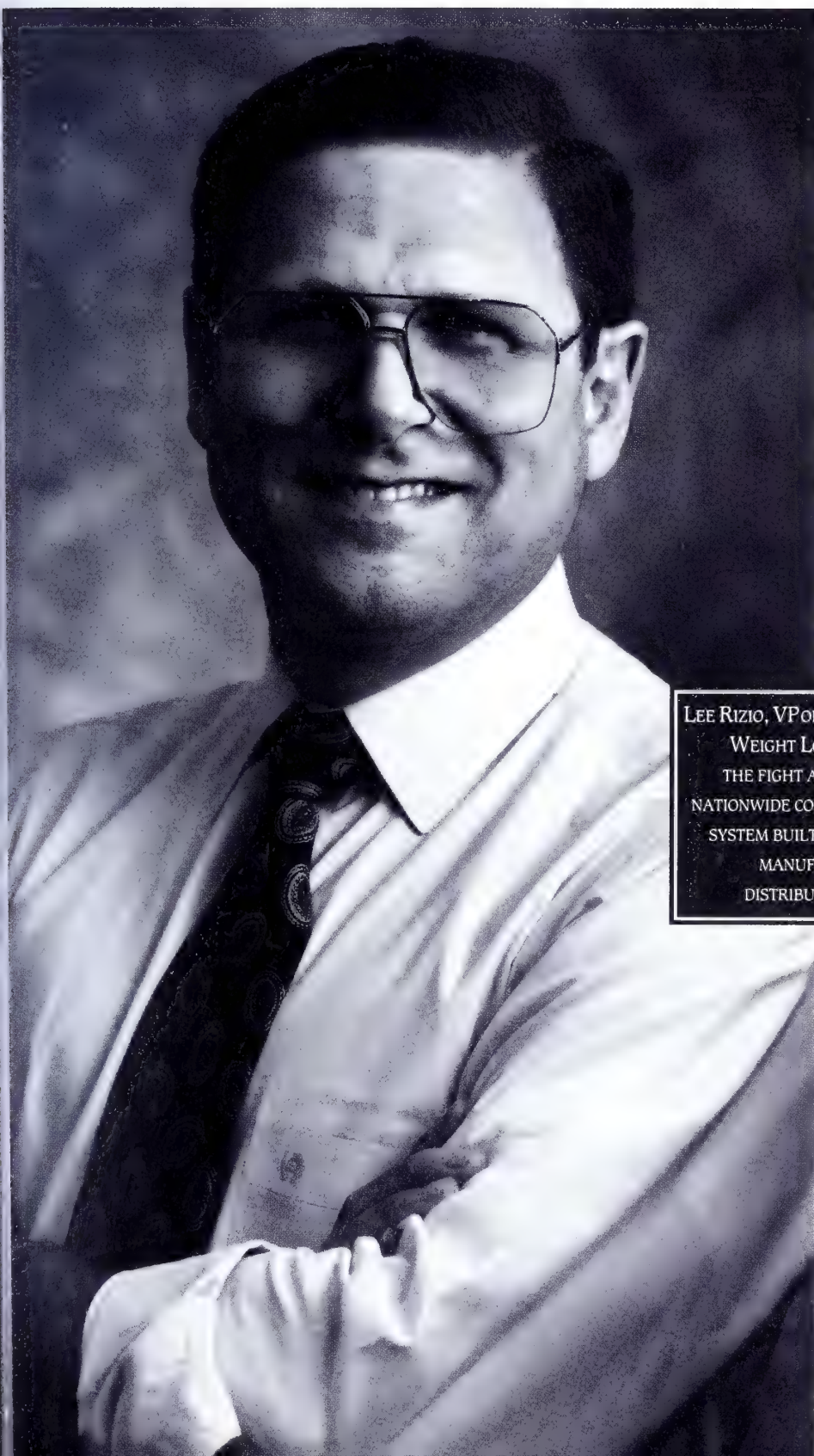
SMART MOVE. While the king of luxury schemes to become emperor, some analysts are trashing the Guinness deal as a way for Arnault to strengthen his hold on LVMH and free himself of any outside control. Indeed, Guinness executives are thought to have questioned Arnault's purchase of two French business publications—even though Arnault says he bought them only to block foreign buyers.

Now, Guinness' only exposure to LVMH's fortunes is in the Moët Hennessy line, which it already distributes in many countries. It's a smart move according to Lehman Brothers analyst John Wakely, since the plunging prices of the grapes used in champagne and in the *eau de vie* for cognac should drive profits up. "Guinness got a steal," he says. Reflecting this reasoning, the market bid Guinness shares up 10% after the announcement. LVMH shares dropped 3.4%, then recovered.

The market's sentiment surprises LVMH's chairman. The margins on perfume and luggage are triple those of bubbly and brandy, says Arnault. Also, Vuitton's formerly flat sales rose 20% in 1993. This swing away from the drinks business, he adds, will boost LVMH's recession-diminished profits. Whether those extra profits materialize or not, Arnault seems eager to roll out the dealmaking weaponry.

By Stewart Toy in Paris, with Julie Flynn in London

Software Fighter.



In the land of plenty, one company is leading the fight against fat.

Through more than 600 weight loss centres across North America, Jenny Craig, Inc. helps hundreds of thousands learn how to lead healthier, happier lives.

Getting them the right food is half the battle and that's what keeps VP of IS, Lee Rizio's plate full. "We can't afford to ever run out of food in our centres. Our clients are counting on us."

Which is why Jenny Craig designed a fail-safe approach: An innovative cooperative-processing system that connects thousands of PCs on a Novell network to an AS/400 running CA-PRMS™ financial and distribution software.

"CA software helps us make sure the right food gets to the right place at the right time. We never miss." And Rizio rates CA product quality and support as "One of the

best in the business."

Which for his business makes a big difference. Because for Jenny Craig, software isn't just a part of

their business, it's part of their core business strategy.

"CA knows what mission-critical means. Every day, I bet my business on their software — and in 10 years, they've never let me down."

That explains why Rizio plans to stick with a steady diet of CA software to keep his information systems strong and healthy.

Or, like he says, "lean and mean."



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LEE RIZIO, VP OF IS, HELPS JENNY CRAIG
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SOUTH AFRICA: PAVING THE FRAGILE ROAD TO ECONOMIC PARITY

In just three months time, on Apr. 27, a general election is likely to bring the African National Congress to power in South Africa. So far, the business community, both local and foreign, isn't panicking at the prospect of rule by the black majority—even after the ANC recently issued a controversial economic policy paper.

Executives figure that the likely new president, Nelson Mandela, will be careful not to damage still-fragile business confidence in the country—though some of his colleagues still indulge in socialist rhetoric. They want a regime that "attracts foreign investment," says Michael J. Spriggs, a South Africa analyst at S.G. Warburg Securities Ltd. in London. "They are not going to kill the goose that lays the golden egg."

That doesn't mean there won't be shocks. From the time it takes power, the ANC will be under pressure from its black majority constituents to improve living standards and break down the system of apartheid that leaves nearly all South Africa's 30 million blacks in poverty and the country's major corporations in white hands. The trick will be to gradually shift economic power toward the majority without wrecking the engine that gives South Africa a far higher standard of living than its neighbors.

NEW ROADS. The ANC's first stab at an economic policy—the lengthy "reconstruction and development program" it recently put out—didn't help build business confidence. It raises the old threat of nationalization and envisions vastly increasing the economic powers of the state. The centerpiece is a massive 10-year \$25 billion public-works program that aims to put 2.5 million people to work building roads and houses, putting in water, sewer, and power lines, and boosting education and training.

Critics question the ANC's contentions that most of the

program can be paid for by shifting spending from the military and internal security forces and that the deficit can be held to the current 6% of gross domestic product. After rising 50% in 1993, the stock market has fallen about 3% in January, as investors fret that spending could rekindle double-digit inflation. Suggestions that the state take back unused mining rights to encourage smaller operations also sparked concern.

But on the whole the white business establishment realizes that the program is in part an election device and that the



THE ANC WANTS TO GRANT MINING RIGHTS TO SMALLER OPERATIONS

ANC had to promise jobs to lock up the crucial support of the black trade unions. Executives also know that they will have to pay a certain price up front to help the incoming government establish itself. The ANC is considering special taxes including a "reconstruction levy" along the lines of Germany's reunification tax and, perhaps, a capital-gains tax or other levies on wealth.

"AMBITIOUS." Executives hope that any tax increases will pay off many times over in terms of the greater stability only a majority government can deliver. "The goals set by the program, while overly ambitious, are not a problem," says Michael Spicer, adviser to the chairman at the giant Anglo American Corp. of South Africa Ltd. "If the new society is going to succeed, business will have to view those goals sympathetically."

Spicer and others admit they are worried about the costs and the statist tone of the ANC program. In the coming weeks they will take up the ANC's invitation to try to work out a "national consensus" on economic policy. They will argue for a bigger private sector role and fiscal discipline. Spicer is confident a deal can be worked out. But the next few months are likely to be bumpy as the ANC struggles to deliver results to its constituents while keeping business on board.

By Alan Fine in Johannesburg

GLOBAL WRAPUP

HONG KONG AIRPORT FLAP

The Chinese-British dispute over the shape of Hong Kong's government is seriously threatening work at the planned \$20 billion airport. China said it would not honor airport contracts that go beyond 1997, the year Hong Kong reverts to Chinese rule. The Chinese say they are worried about the British colonial authorities' overborrowing to finance the airport. But their real target appears to be the democratic reforms Governor Christopher Patten is likely to introduce in March. Although most contracts awarded so far will not be affected, the Chinese stand could crimp bidding for such key

franchises as baggage handling, catering, and aircraft maintenance.

MEXICAN SWITCH?

Mexico is awash in rumors that Manuel Camacho, President Carlos Salinas de Gortari's special envoy to troubled Chiapas state, could wind up as the ruling Institutional Revolutionary Party's presidential candidate in the August elections. Camacho would displace Luis Donaldo Colosio, the party's choice back in November before guerrilla unrest erupted. However, Camacho's chances, which are small at best, could be hurt by the slow progress of talks with the Chiapas rebels. The guerrillas have ridiculed

an amnesty law that Salinas rushed through Congress, and he got a cold reception on a recent visit to Chiapas.

ARAB OIL FOR ISRAEL

The Arab boycott of Israel may not have formally ended, but Israelis claim Arab oil is so easily available to them that they are halting purchases of Mexican crude. About 40% of Israeli energy needs come from Egypt—which has a peace treaty with Israel. Most of the rest comes from Arab producers and Iran, Israeli energy officials say. Meanwhile, Israel continues to discuss natural-gas projects with Qatar, a Persian Gulf state with massive gas reserves.

1994 Senior TOUR JOURNAL





"The big one, the one I'll never forget was on the 18th hole at Pebble Beach during the final round of the 1992 U.S. Open. The course was set up in typical U.S. Open fashion—narrow fairways, high rough and hard, fast greens. Although I had a two-stroke lead standing on

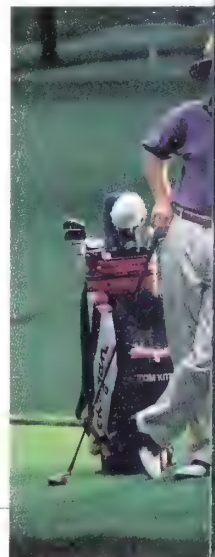
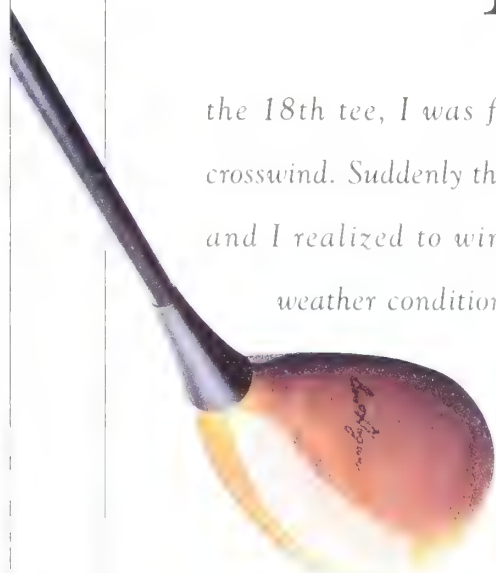
"Two of my most m

the 18th tee, I was facing the Pacific Ocean on the left with a 30-mile-per-hour crosswind. Suddenly that lead didn't feel so comfortable. The 18th is a 548-yard par five and I realized to win the Open, I had to have a par. No small trick under those weather conditions. The previous three rounds I'd played it conservatively, using

3 wood off the tee. But that day I needed more.

So, I told my caddie to give me the driver. I thought he was going to argue with me, but all he said was: "I like it." So, I took my driver and

hit what my caddie later called the best drive of the tournament. A drive so gorgeous, you don't even have to watch where the ball lands. You just pick up the tee and start walking. It was well over 280 yards, straight down the middle. I got my par and became the 1992 U.S. Open Champion."



"I was driving Chrysler products long before I had any professional association with the Chrysler Corporation. My wife and I discovered their minivans years ago. (With three children, including twin boys, it was a fortunate discovery.) We've owned three Chrysler minivans including our current one: the Plymouth Voyager. I also own a Chrysler Concorde, which I will admit, I didn't pay for. I won it in the Bob Hope Chrysler Classic. Recently, the guys at Chrysler let me drive the new LHS; they wanted to know what I thought. The LHS is a larger car than my Concorde, but it's unbelievably quick and agile. It's got acres of room front and back and is equipped with every luxury feature I can imagine a car having. But the thing I admire most is the simplicity of the lines. There's nothing busy or extraneous about this car, inside or out. Yet it feels rich and luxurious. In my mind, that's good design.

memorable drives."
—Tom Kite

have a chance to drive a lot of new cars in the course of a year. Every tournament provides the players with a courtesy car—both imports and domestics. Overall, the domestic manufacturers have come a long way. But in my book, the company to catch is Chrysler." C H R Y S L E R 



A Quarter Century of Change

By Gordon White



The wisest of professional golfers in 1969 could not predict that 25 years later the PGA TOUR would consist of 44 tournaments averaging \$1.2 million in prize money. Or that in 1994 there would be a Senior PGA TOUR of 43 events with purses adding up to more than \$32 million.

After all, back in '69 Jack Nicklaus was 29, Arnold Palmer became 40 and Lee Janzen was only 5 and touring pros had just established their own organization known then as the Tournament Players Division of the PGA of America. Touring pros battled

for shares of slightly more than \$6 million in purses in 1969 and, if they gave it any thought at all, they were sure their playing days would be over well before they reached the age of 50.

Joseph C. Dey Jr. became the first commissioner of the newly formed Tournament Players Division in January 1969 and there was no Senior PGA TOUR. Dey would be succeeded in five years by Deane Beman, who was busy playing the TOUR in 1969, when he won the Texas Open and narrowly missed winning the United States Open.

Not even dreamed of until the late '70s, the Senior TOUR was organized in January 1980 for tour pros 50 and older. Quick to succeed, the Senior PGA TOUR grew to 27 events in 1985 with nearly \$7 million in purses.

For 33-year-old Gary Player of South Africa, 1969 was a one-victory year on the U.S. tour; he won the Tournament of Champions title. He, like all of his present-day colleagues on the Senior PGA TOUR, admits to amazement at the growth in purses over the years.

"We play for more prize money in a month now on the Senior PGA TOUR than we played for in a year 25 years ago on the PGA TOUR," Player said. "We used to play for about five to six million dollars a year back then and now we play for more than a million and close to two million in one week."

The little South African was noted for his devotion to physical fitness in 1969, those days when there were long-haired golfers, wooden drivers and hardly any joggers among touring golf pros.

"I did skipping, rope jumping, jogging and squats. Frank Stranahan and I were the Ray Floyd before and after the Senior TOUR.



only ones who did it. We used weights and had to get a cab to find a place downtown at tournament cities, places like a gym or the Y, to do our weight lifting. Other golfers all said we'd be finished at age 35 because we would be muscle bound.

"Now the rest realize all sports people do it for muscle toning. And you've got a traveling gymnasium on the PGA TOUR and the Senior TOUR with the Centinela Fitness Center trailer."

Ray Floyd, who was 26 when he beat Player by one shot in the 1969 PGA Championship, said he didn't give any thought to physical fitness 25 years ago.

"The key for me is that back in 1973 I began to see what physical exercise and stretching does for me," Floyd said. "I didn't do it in 1969. But after a couple of injuries I realized that if I stayed on a regimen of flexibility exercises, I could compete much longer. The most phenomenal thing in technology that has hit us all on TOUR is this Centinela Center that travels with us on both TOURS."

One day after Richard Nixon was inaugurated as the 37th president of the United States on January 20, 1969, Miller Barber won the rain-shortened Kaiser International that opened the TOUR's West Coast swing. Since then, five presidents have come and gone and a sixth now resides in the White House.

During all those important changes one curious thing has remained constant over the past quarter century – Miller Barber's golf swing. Using that fancy twirly-gig loop of a swing, Barber has won more events on the Senior PGA TOUR than any other golfer.

Barber's reaction has always been, "I'd never change the swing." And why should he? Mr. X has won well over \$3 million in Senior TOUR purse money, more than twice what he won in 22 years on the PGA TOUR.



Left to right, Chi Chi Rodriguez, Gary Player and Arnold Palmer as they were in 1969.

Just a month before Neil Armstrong became the first man to walk on the moon, Orville Moody won the 1969 United States Open, beating out Beman, Al Geiberger and Bob Rosburg by a stroke in Houston.

Despite winning that most prestigious of all golf tournaments, life after the Open was not fun and games for Moody.

"I lost a lot of money after that and the family and I struggled and sacrificed a lot before the Senior TOUR started up," said Moody, a veteran of 14 years of Army service before he became a professional in 1967. "This Senior PGA TOUR saved me and my family."

Moody has taken advantage of the many golf equipment changes over the last quarter century. He putts with one of those long-shafted putters tucked up under his chin and used it to win the 1989 Senior Open at Laurel Valley.

The Senior TOUR also has meant a new and better life for many others. Jim Albus, a New York metropolitan area club pro who tried but failed on the PGA TOUR years ago, has been a booming success on the Senior TOUR. He won the 1991 Senior PLAYERS Championship and has won more than \$1 million on the Senior PGA TOUR.

Geiberger, who won \$1.2 million on the PGA TOUR, has more than doubled that in seven years on the Senior PGA TOUR. Back



Miller Barber's golf swing has remained constant for the past 25 years.

in 1969, Geiberger had three children, two of whom were a year old. Remarried since then, Al fathered a son in 1988 and a daughter in 1991.

Lee Trevino, who hit the Senior TOUR like a whirlwind in 1990 with seven triumphs, had a daughter in 1989 and a son in 1992. Back in 1969, a year after his first victory, in the U.S. Open, Trevino had the third of his six children.

Nobody on TOUR has as many children to care for as Chi Chi Rodriguez, the Puerto Rican who grew up in poverty and became one of the most popular American athletes of our time. His Florida home for children in need is funded through the Chi Chi Rodriguez Foundation.

"Golf did all this for me and the kids," Chi Chi said. "But back in 1969, oh, kids wouldn't listen to me. If Chi Chi said something then, they'd say, 'Who's he?' I wasn't a role model then. Now the kids pay attention because I'm famous through golf."

"I have lots more money than I had 25 years ago. But the most important thing I have had since then is the spiritual thing in life. When I'm around the kids, I feel like I'm a blessed individual."

Chi Chi, one of the game's great finesse players, has turned those skills into more than \$2 million just for his home for kids.

The likable Puerto Rican said that in the last 25 years equipment has made a big impact on golf, particularly the golf ball. He and Archer and others feel the ball design now is a major influence on the present game.

"Used to be I could hit the ball 150 yards with a 5-iron into the green and bring it in left to right from 15 yards left of the pin," Chi Chi said. "Now I can only bring it in 5 yards. That's because the dimples on the ball now keep it straighter."

Archer spoke of aerodynamics as one of the biggest changes since he won the '69 Masters.

"The dimples on the ball and the graphite shafts are the big changes since then," Archer said.



Al Geiberger has more than doubled his PGA TOUR earnings in seven years on the Senior TOUR

"The dimples make the ball fly straighter, but also act as wings and make the ball fly longer."

Archer, who has been very successful on the Senior PGA TOUR, had reason to believe he might never play this late in life. He underwent back surgery for disk damage before joining the senior circuit. But here he is, still cashing in by playing a game he loves.

"You can't beat it," he said. "We're very fortunate, you know. I'd be playing golf just for fun if there was no Senior TOUR. Golf is a lifetime game."

Palmer, who was already known as The King with his own army in 1969, remains just that in many folks' opinion. He is a walking conglomerate with numerous enterprises bearing his name. The biggest of these is the worldwide golf course construction and design business. Nicklaus is in much the same business position with his Golden Bear International.

The past quarter century has been kind to all of these superb golfers. Maybe that is because the past decade has been a boom time

for seniors on fairways. Equipment has changed to enhance their skills, sponsors have put up money for senior tournaments and golfers have learned how to keep in shape through exercise and diet. After all, when you reach 50, you better be healthy so you can carry all that money to the bank. ■

Jack Nicklaus and Lee Trevino





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THE NEW BONNEVILLE

A black and white photograph showing the front interior of a 1994 GM Bonneville. The image focuses on the leather-upholstered front seats, which feature horizontal ribbed stitching. A seatbelt is visible across the driver's seat. The dashboard and center console are partially visible in the background.

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Charles

in Charge

BY LEE PATTERSON



**He thought he
had raised his
son properly –
a sprinkle of
traditional
British decorum
with a dash of
discipline.**

On a pleasant New Zealand evening in the summer of 1954, Ivor Charles looked in the mirror and checked to make sure his tie was straight and his hair was in place. He had to step out for the night to attend an awards ceremony and he wanted to look as dazzling as possible.

The aging farmer had a conversation earlier in the day with his only child and the subject worried him a bit. He wanted the best for his son, but he wasn't sure the 18-year-old had the confidence and drive to chase his dreams. He was proud of the boy and hoped he could provide the self-assurance needed to push his confused and bashful teenager out of the nest. He thought he had raised his son properly – a sprinkle of

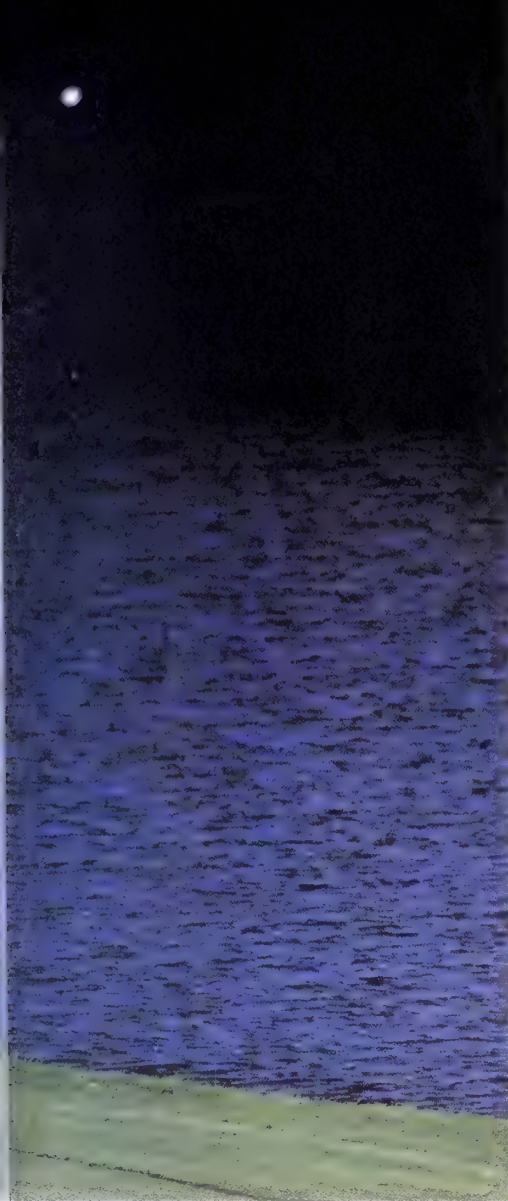
traditional British decorum with a dash of discipline. But he privately hoped he hadn't overdone it all.

As he started down the hallway, looking at his watch, he heard his son complaining about the tight shirt and the tie he had to wear. He looked into his son's room, saw him struggling, and reminded him they needed to be on the road soon.

His son snapped back, "If this is what you have to go through to be a winner, I don't want any part of it. This is not what I want. I can't do this. I will never be able to do this."

Ivor Charles looked back at his son and spoke softly.

"With success comes many things one doesn't like. It's a given. But those who



are truly successful learn to handle the uncomfortable moments. You may have to hide your feelings, fake it if you will. With winning you lose a piece of yourself. You are a winner on the field. Let's go learn how to be one off it."

Young Bob Charles went to the awards dinner, came close to tears of fright before he nervously stood in front of a crowd and made an acceptance speech as New Zealand's Sportsman of the Year. He knew winning the New Zealand Open earlier the same year was what he wanted and beating Peter Thomson, the reigning British Open champion, was the thrill of a lifetime.

But all of those eyes looking at him were too much, and talking with any of those people who stared and tossed congratulations toward him was beyond his ability.

On this night, he hated being the winner.

"That was one of the most difficult nights I can remember," says the most successful left-hander to enter the world of golf. "I was always taught that children were to be seen and not heard. That's what I knew and therefore believed. My parents raised me in traditional British fashion and when the time came for me to speak or be around crowds, it was awfully uncomfortable."

Not absent – at any time – from this shy child, and man he has become, is the desire to compete. As much as he hated the social aspects, he loved the battle on the field. The attention he could do without. The trophies he needed.

"Concentrate is something I have a great ability to do if I enjoy what I am doing," he says. "I enjoy sports. It gives me a big high to compete. Books, scholastics, didn't interest me. I used to sit in the classroom as a boy and look out the window at the cricket fields and tennis courts. It was a struggle for me to get through high school. I wanted to be out there. I had no interest in learning."

"And when I was younger, if I didn't win, I had a hard time accepting defeat. I was a bad loser. You have heard about Bobby Jones and Bobby Locke. Well, I was the same. I had a bad temper and I showed it. I have learned to control that, learned to lose well and learned to be a winner. I try not to get excited about good shots, bad shots. I've learned to control my emotions on the course. I like to have an even disposition and it has contributed to my success a lot. I've worked hard on that."

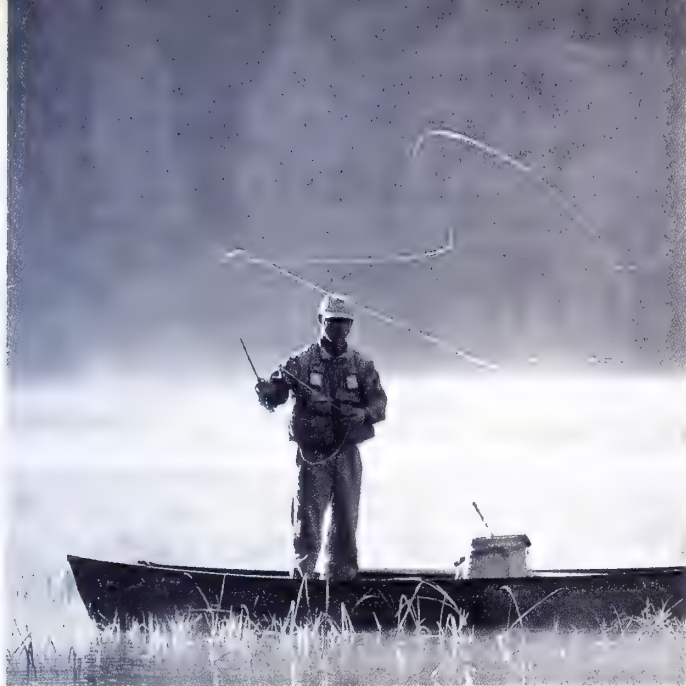
Victories around the world rapidly followed the uneasy evening spent by an 18-year-old who had the dream and desire to play the game. He would win three more New Zealand Opens and a pair of New Zealand PGAs and would bring home trophies from Japan, Switzerland, Scandinavia, the United States and South Africa.

"I try not to get excited about good shots, bad shots. I've learned to control my emotions on the course."

Over the years, Bob Charles and Gary Player have developed a strong friendship.



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He let his golf swing and precise putting skills do most of his speaking. And along the way, he would meet people who would help him but never really break him from his shyness.

Traveling to amateur tournaments with Bobby Verwey in 1958, he gained trust in the South African gentleman. By the next season, during a tournament in South Africa, he trusted him enough to go on a blind date.

Verwey, Gary Player's brother-in-law, introduced him to Verity Aldridge, a beautiful young lady from Johannesburg, South Africa.

Vivienne (Gary's wife) and Miss Aldridge attended school together as youngsters and at the time worked together at the General Tyre & Rubber Company, Ltd. in Johannesburg.

This was one of the trips which convinced Charles he should take up golf professionally. As an amateur, his means of support came from a job as a teller in a Christchurch bank. Golf, however, was becoming his passion and

the bubbly Miss Aldridge quickly became his best friend.

By 1962, Charles had earned money in 16 countries and he married his best friend. The team was on its way.

"We have been a good team," he says now. "She has contributed a lot to my success. She has made a lot of sacrifices for me. It is a relationship which has worked. We have had no major problems, no crisis in our lives and we have great kids.

"It is hard for me to remember how I handled myself when I met her. She was the talker, I know that. I was and always will be an introvert. I hate parties and going out. I enjoy sitting and reading a book more than anything. I hate big groups of people.

I see enough of that at golf tournaments. Having a quiet evening with my wife is where I'm happier.

"I don't enjoy conversation. It's not easy. I'd rather not get involved. My wife is quite the opposite and she does all of that for me. I don't project myself like others and I have come to the conclusion that is the way I will always be. I am better at being in public than I was as a young fellow. But I am not like the others out here on TOUR – like Player, Trevino, Chi Chi and Palmer.

"It takes an awful lot to get me out when I am away from the golf course. I always order room service. To me, food is food unless it is my wife's cooking. And it better be pretty special to get me out to eat dinner.

"I am withdrawn. I am not pushy. I am happy with my life. I have everything I need in life. Part of being an introvert is I don't need much. I have modest needs and to that scale, I enjoy a great lifestyle."

Charles' marriage to Verity also brought a friendship with Gary Player, another personality opposite to that of Charles. The two couples still do quite a bit together. The relationship is special.

"I admire Gary a great deal," Charles says. "The way he handles himself in public and all of the projects he is involved in are impressive. He has been a great influence on my career and a friend away from the golf. Watching him has helped me deal with the social life a bit more, even though there is no way I could ever do as much as he has."

Player, who completed his 40th year as a professional last season, has been able to know and understand the development of this shy man better than any other in their profession.

"Bob is simply a quiet man and although people say he doesn't smile much, we have had many good times and laughs together," says Player. "We have a lot in common. We share an interest in farming, we both are good family men and it is essential when traveling as much as we do to have a great wife. In Verity, he has this, and a friend who has helped his life and career."



Photo by [illegible]

Through his drive to compete, some key friendships and learning how to recognize, understand and accept his inability to talk comfortably with others, Bob Charles has become one of the game's greatest golfers.

When he came to the United States in 1963, the 25-year-old brought a wealth of experience. In those days, a hungry golfer who was not exempt had to qualify for a tournament on Mondays. Charles did this easily for a month and then gained full exempt status when he won the Houston Open. That same year he won the British Open. He would win four more PGA TOUR titles and gather more trophies in tournaments around the world.

Soon, all who saw his smooth swing and incredible ability to putt from the "wrong" side of the ball, were eager to learn how this left-hander could do it. Most fans didn't care about the person they saw. He was simply recognized as "that left-hander."

"Being a left-hander was a novelty. Not to myself, but to others," remembers Charles, who does everything right-handed except play golf. "My mother and father were left-handed and that is how they taught me to play golf. Where I came from, as far as the golfing population is concerned, 10% of the New Zealanders are left-handed golfers. And that is 9% more than here.

"That is what people wanted to talk about in those early years when I came here. And if I was able to get more left-handers on the golf course, I'm glad for that."



Charles' drive to compete keeps him on the practice range.

Most Wins In A Season By Senior TOUR Golfers Age 57

	Wins	Season
Bob Charles	3	1993
Don January	3	1986
Billy Casper	2	1988
Miller Barber	2	1988
Gene Littler	2	1987

Quickest To Earn \$1 Million In A Season By Events

	Events	Year	Final \$\$
Bob Charles	26	1993	\$1,046,823
Lee Trevino	28	1990	\$1,190,518
Lee Trevino	28	1992	\$1,027,002
Dave Stockton	30	1993	\$1,175,944
Mike Hill	32	1991	\$1,065,657

Now that the novelty has worn off, Charles is recognized for his accomplishments. Many have come recently. Since first appearing on the Senior TOUR in 1986, he has won 21 tournaments, ranking him fourth on the all-time victory list. He has won more money than any other player in the history of the 50-and-over circuit, with nearly \$4.5 million.

What's more, he picked up three of those victories, not including his second British Senior Open, and took home over \$1 million last year. It was his best season in golf and it came 39 years after a nervous summer night in New Zealand.

A night he hated to be the winner.

"I consider myself a lucky person," he says with a short but noticeable smile. "I have enjoyed a lot of success and fortune. And I have seen the world. To me, that may be the greatest gain. I think this world would be a greater place if people had the chance to travel more often. You can't understand people unless you know and see where they live. It opened me up a lot. I am extremely grateful." ■



TPC of Michigan

BY JACK BERRY

How many times have you seen the television commercial where a hand with a cloth polishes the distinctive white-on-blue Ford logo while a voice intones: "At Ford, Quality is Job 1."?

The logo is on the top left corner of the Glass House, Ford Motor Company's World Headquarters building, just north of the Tournament Players Club of Michigan. It can be seen from almost everywhere on the course and true

to the slogan, Quality is Job 1.

The TPC of Michigan had the fastest membership sign-up in the history of the Tournament Players Club network. It was

full almost before the first tee went into the ground in late summer of 1990, due to a strong triple play combination of Ford, the PGA TOUR and Jack Nicklaus, who designed the stadium course that is now the home of the \$1.4 million FORD Senior PLAYERS Championship.

Unlike most new golf courses that are built in distant suburbs or rural areas, the TPC of Michigan is in Dearborn, in the heart of the metropolitan Detroit area, just 15 minutes from downtown, close to freeways, the airport and business centers. Also, unlike most new courses, the TPC of Michigan is a corporate entertainment golf club. No tennis, no swimming, no ballrooms.



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Chi Chi Rodriguez

Chi Chi Rodriguez
National Spokesperson
"Keep Your Health Up To Par"
Prostate Health Awareness Campaign

"If you answer yes to any of these questions, it may indicate a potential prostate problem and we encourage you to see a physician. Even if you're not experiencing any symptoms, please see a physician annually for a complete examination that includes a prostate check-up. Knowing your prostate score is one sure way to keep your health *Up To Par*."

For more information on prostate disease and treatment options, please call 1-800-666-4442.



The "Keep Your Health Up To Par" campaign is sponsored by the American Foundation for Urologic Disease and the Foundation's Prostate Health Council, and is being undertaken in cooperation with the Senior PGA TOUR.



It's quality golf. Greens, aprons and tees are walk-mowed. Bunkers are hand-raked. Fairways are cut like pool tables. In its first two years of operation the TPC of Michigan took five of the 11-club TPC network's eight top awards for maintenance, golf operation, food and beverage and club operation. Quality is Job 1.

The TPC of Michigan is one of the last elements in Ford Motor Land Development Corporation's 2,600-acre Fairlane complex anchored by the world headquarters building in Dearborn, Henry Ford's hometown.

Ford didn't play golf but he hired Donald Ross to design a course for his executives. That's now Dearborn Country Club.

Ford's grandson, William Clay Ford, owner of the NFL's Detroit Lions, is an avid golfer and, with George Fazio, owned Jupiter Hills Golf Club in Florida. So Ford and golf have some history together.

But golf, which goes very well with the car business, was lacking in the Fairlane development.

"You can't have all hotels, residences, offices and industrial buildings," said Wayne Doran, chairman of Ford Land. "We didn't have a good definition of recreational use for awhile and we kept coming back to the idea of a corporate country club, not a family country club.

We do offices, hotels, industrial buildings and shopping centers very well, but we didn't do golf courses," Doran said.

Doran, who has a 7.9 USGA handicap index, knew golf, however. Before he joined Ford in 1969, Doran was with the Del Webb

Co. He was involved in the development of the Oakbrook community in suburban Chicago along with the Butler National Golf Club designed by George and Tom Fazio. And he worked on the Sun City developments in Arizona, which include 10 golf courses.

"We examined quietly and carefully for a long time before we decided on what we'd do in golf," Doran said.

He talked with close friend Lyle Anderson, developer of Desert Mountain in Scottsdale, AZ, and founder of The Tradition, one of the Senior PGA TOUR's major championships. And Doran interviewed Nicklaus, who designed Desert Mountain's Cochise and Geronimo courses.

"Everyone said Jack was really tough but that he stuck to his word and his work," Doran said. "I was very pleased with Jack and his staff."

Since Ford Land didn't intend to operate the course, it decided to join the TPC network.

"We were impressed with the TOUR's reputation and integrity. Tim Finchem (now Deputy Commissioner) was hired as an independent consultant. He had a tremendous amount of solid input," Doran said.

The land on which the TPC of Michigan sits was purchased in 1915 by Henry Ford but never utilized. The Rouge River bordered it and, before the Rouge was stabilized, it regularly flooded part of the property.

"A lot of times, the best golf courses come on pieces of ground that weren't very good," Nicklaus said. "We moved perhaps a half million yards of dirt to create mounds, hills, swales and lakes. From where we started and the kind of ground we had, I'm very proud of the job we did."

The 207-acre site had 44 acres of wetlands. Nicklaus incorporated them into the play of the course including the signature 429-yard par 4 14th, the Green Monster. It requires wetland carries on both the drive



PGA TOUR ARCHIVES





and second shots and has been one of the Senior TOUR's 10 toughest holes since it debuted in the 1991 Senior PLAYERS Championship.

But 14 isn't the only demanding hole. Just after taking the final round lead of the 1991 Senior PLAYERS, the first at the TPC of Michigan, Dave Hill lost it while

thrashing about in the wetland that splits the 11th fairway. Later that round, Lee Trevino caught the lake on the par 5 17th while trying to reach the green in two shots in a vain effort to catch Jim Albus.

And in 1992, J.C. Snead stood on the 18th tee with a two-shot lead, pulled his drive into the wetlands that guard the left side of the hole and double bogied the hole while playing partner Dave Stockton birdied it to earn his first Senior TOUR title.

Last year, third round co-leader Rocky Thompson visited the water on the fifth and sixth holes and fell out of the race. Jim Colbert birdied three of the last six holes and shaded Raymond Floyd by a shot.

Publicity over the Senior PLAYERS and the fact that it is a Nicklaus course is making the TPC of Michigan a must for business visitors.

"We cater to a member and three guests rather than the traditional country club where everyone is a member," said Billy Dettlaff, general manager and a PGA Master Professional.

"We're constantly on show," Dettlaff said. "When a member goes to his own club, he goes out to enjoy the day. He's with other members. But at the TPC of Michigan he's entertaining key clients. He's on stage and we're on stage. You have to prove yourself every time.

"All TPCs have an annual membership survey and we've been among the highest each year. Last year we were highest in member satisfaction," Dettlaff said.

In 1991, the TPC of Michigan's first year of full operation, the club was named Golf Operation of the Year and Club Operation of the Year. In 1992, it was No. 1 in Golf Course Maintenance and No. 1 in Food and Beverage in the network.

"We built the TPC of Michigan with a statement of quality and class," Doran said. "We spent a lot of extra time on it and the TOUR has staffed it well. We receive a tremendous number of letters from people who say how well they were treated. Dave Williams, the chairman of the Budd Company, said he wished some of the other country clubs were as responsive to his guests as the TPC of Michigan was."

The TPC brainstormed innovative ideas that have helped make the club No. 1 in the network. Two years ago it was cluster outings of up to 32 players in off-peak periods, before 11 a.m. weekdays and after 1 p.m. weekends. The outing gets everything a full-field outing gets and works for small, intimate groups.

Last year the staff came up with a teaching program. A member would take two or three guests and a TPC of Michigan professional would give them a one-hour lesson on whatever facet of the game they wanted and the staff videotaped it. Then they'd go out and play. When they came in after their round the guests were given a copy of the tape.

"That's something the member's client will remember every time he takes out the tape," Dettlaff said. "It's another way of making the club's services more valuable to the members."

In this day of fast play, there was a surprise from the first membership survey.

"They wanted to slow play a little," Dettlaff said. "We were striving for a four-hour round and they told us they wanted to slow it down a little, make it four and a half hours so they'd have time to visit with their guests during the round."

The TPC of Michigan's season usually begins in March and ends in October. However, the golf shop is open year-round and the basement cart storage area is transformed

**The 1993 Senior
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more than 110,000
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week, a 20 to 25%
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of the credit.**

with carpeting, three hitting nets, swing training devices, video facilities for lessons, a putting green with undulations and an honor bar.

"We're open for business lunches and dinner Tuesdays through Fridays," Dettlaff said. "Quality and service are the major considerations in the dining room as well as the course. When you are entertaining vice presidents, presidents and board chairmen, you have to have food and beverage service that is comparable to any five-star restaurant or resort in the country."

An important part of the TPC menu is championship golf and that was put in motion when the Senior PLAYERS Championship moved north from the valley course at TPC at Sawgrass in 1990. The TPC of Michigan still was in the grow-in stage so the 1990 championship was played at Dearborn Country Club and Nicklaus burned it up with a career and tournament record 27-under-par 261.

The TPC of Michigan came in so well that the Senior PLAYERS moved to it in 1991. It was under Mazda sponsorship and Ford stayed in the background but it was a big background – the Glass House, Ford's world headquarters, always was in view just north of the course.

Ford moved behind the wheel of the Senior PLAYERS in 1993 and it's been a smooth road.

"How many tournaments do you think there are that the sponsor's headquarters is this close?" said Senior PLAYERS Championship tournament director Brian Goin.

"And it isn't just one car division, it's all 11 Ford divisions – Lincoln Mercury, Ford, trucks, parts, everything."

When Goin contacted prospects for entertainment and ticket packages he opened with the magic name.

"I asked for the Ford account manager," Goin said.

In planning the stadium course, Nicklaus constructed a huge triangular berm that overlooks the 13th, 17th and 18th holes. The corporate village area accommodates

24 30x30 tents and each tent can handle 200 to 300 guests. All but three tents on the 13th were sold in 1993 and all of the tents on 17 and 18 have been re-booked for 1994.

The 1993 Senior PLAYERS drew more than 110,000 fans for the week, a 20 to 25% increase over 1992, and Ford's tie-in drew much of the credit.

"We wanted to create a unique air of excitement. We took the players to the test track (just a couple of Jim Dent drives across the Southfield Freeway) and I got more letters on that than anything else – they all want to go back."

Ford had Mario Andretti, Jackie Stewart and Lyn St. James whisk the players around in high performance cars.

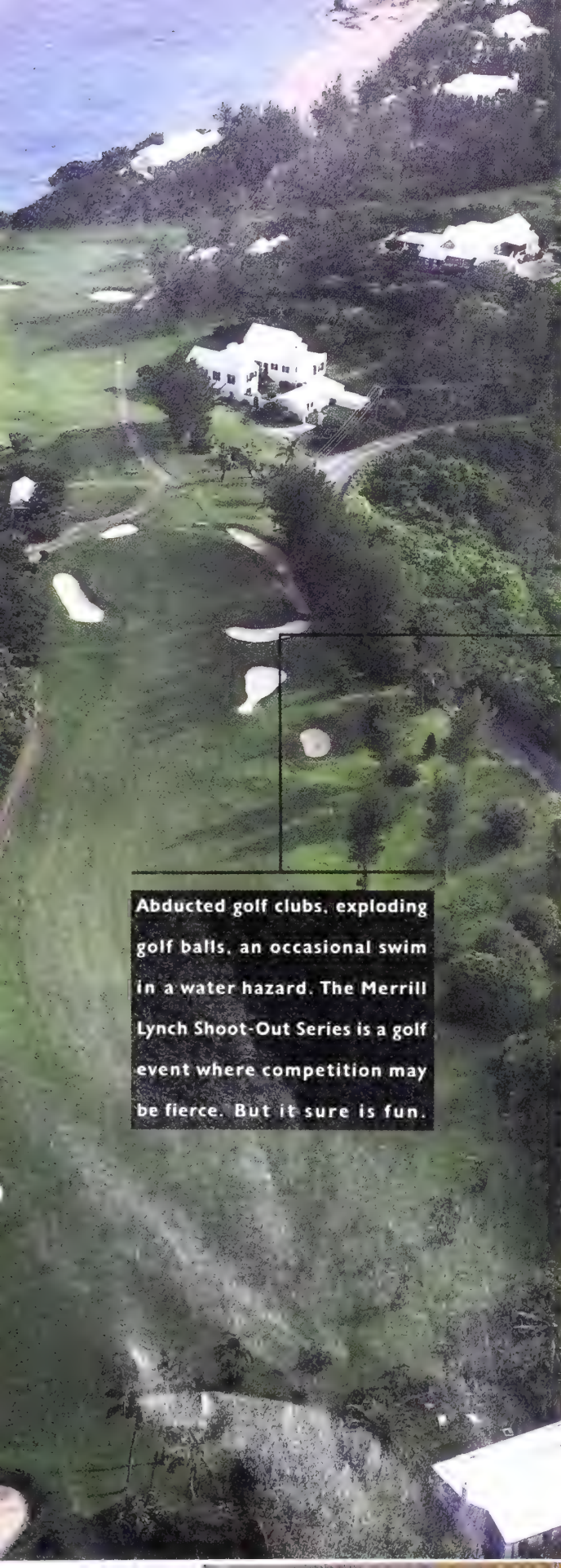
The big pro-am draw party was held at historic Greenfield Village, also just across the freeway and one of the five most visited museums in the world, something like Henry Ford's Smithsonian, dominated by an exact replica of Independence Hall.

"Raymond Floyd went back twice and I gave extra visitor passes to 26 other players," Doran said. "That's the type of thing you try to do."

Quality care, quality club, quality course, quality tournament. It's Job 1 at the TPC of Michigan. ■

**Publicity over
the Senior
PLAYERS and
the fact that
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course is making
the TPC of
Michigan a must
for business
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Senior TOUR Golf Tips

By Dave Stockton
with Phil Stambaugh



"How can I hit the golf ball 10 extra yards?" Those ten words form perhaps the most commonly asked question among amateur golfers everywhere.

Dave Stockton, the 1993 Senior PGA TOUR Player of the Year, discovered a way to increase distance by accident, and he thinks the same thing might help your game. While watching "Inside The Senior PGA TOUR" on ESPN, Stockton noticed fellow senior pro Tommy Aycock giving a tip to demonstrate the proper rotation of the arms and body through the ball on the downswing.

"Tommy was using a beach ball to show that the palm of the right hand should be facing the ground after impact," Stockton said. "What had happened to me for

most of the '92 season was that I was forced to play a fade and therefore losing valuable distance on my drives. My left palm was facing the ground and the right palm was facing the ceiling."

In his book, *The Little Red Book*, noted teacher Harvey Penick demonstrates the same technique by using a bucket of water instead of a beach ball. The concept is the same in both cases. For power and accuracy in the golf swing, there must be a proper release of the hands – i.e. the right hand must turn over the left – through the ball.

Ben Hogan, one of the game's greatest players, emphasized this thought using the terms "pronation" and "supination" in his book, *Five Lessons: The Modern Fundamentals of Golf*. Pronation is defined as the turning of the hand so the palm faces downward. Supination is turning the hand so the palm faces upward.

After a few sessions on the practice tee with this idea in mind, Stockton immediately saw a big difference in his length. The extra yards he added to his drives were

a major factor contributing to five victories and more than \$1 million in official earnings during the 1993 season. "The correct move is similar to hitting a topspin tennis shot," Stockton says. "Get the big muscles in the body working through the shot and make sure the weight is off the back foot."

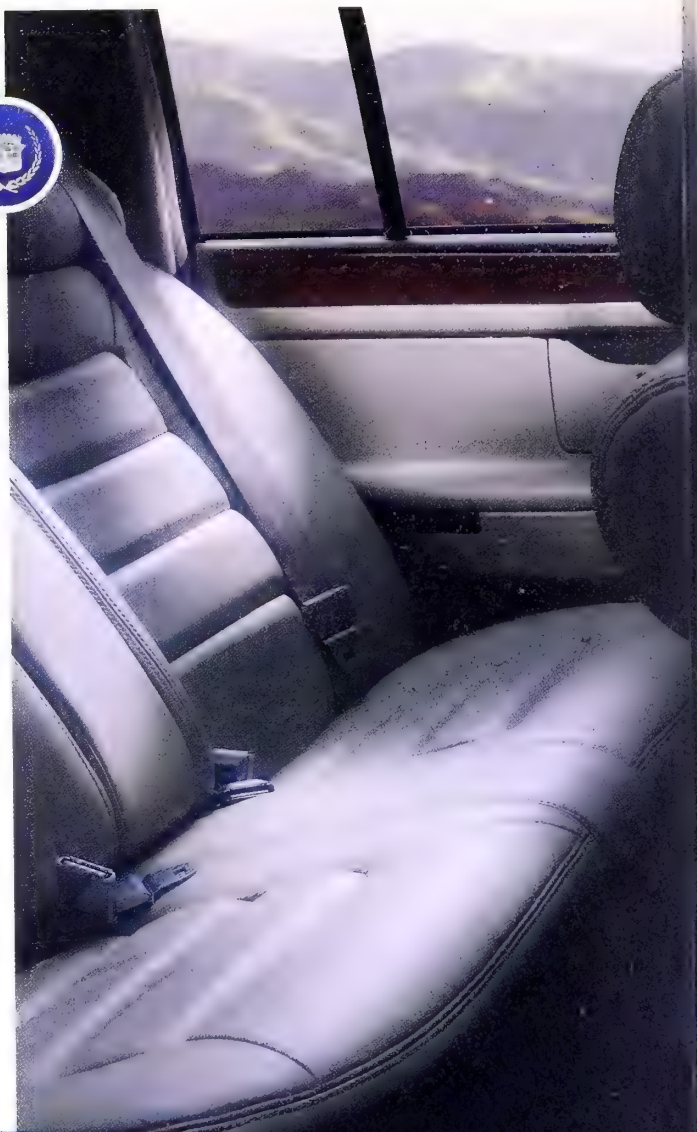
Try this out for yourself. Stand as you would address a golf shot, then throw a beach ball across your body to the left without spinning it. Then repeat, but this time spin the ball and check to see if the right palm is facing toward the ground at the finish. Practicing this move with either a beach ball or a bucket of water will eventually give you the feel for the proper release in the golf swing. It also will show you how important it is to shift your weight to the left side through impact to create power and added distance.

The ball flight should instantly give you the feedback you need to see if you've made this move correctly. "In the air, your ball should have a slight draw and I think, as a result, you will get a few extra yards because of the over-spin," Stockton says. Try Stockton's advice if you're tired of being outdriven on every tee ball. The results you see just might surprise you as well as your playing partners. ■



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SUSPENSION SEATING

Senior TOUR Golf Tips

By Bob Murphy
with Phil Stambaugh



Twelve feet of smooth green grass was all that stood between Bob Murphy and his first Senior PGA TOUR victory. As he steadied himself over the ball in the sweltering Alabama heat, Murphy wondered if the golf gods would finally smile on him. His only thought was to make a good smooth stroke. In other words, don't decelerate the putterhead.

The week before in Boston, Murphy found himself in a similar situation to the one he now faced in Birmingham. From about the same distance on the final putting surface of the tournament, his ball grazed the side of the cup and spun out. This time, after going more than halfway around the cup, his ball found the bottom of the hole. Those same golf gods who had put him through one more runner-up week in the northeast, were now grinning from ear to ear for the jovial Irishman at the Bruno's Memorial Classic. "The putt was uphill and broke slightly left to right. My last thought was to get the ball to the hole," he said.

Murphy went on to capture the GTE North Classic and had 10 other finishes in the top five. With more than \$750,000 in official earnings and a spot among the top 10 on the money list in his first year as a senior, he easily captured the circuit's Rookie of the Year honor for 1993.

According to the five-time winner on the PGA TOUR, the key to a solid stroke on the greens is to learn to consistently accelerate the speed of the putter as it gets close to the ball on the forward swing.

"Most amateurs decelerate the putter and end up never getting the ball to the hole," Murphy said. "For right-handed players, the way to solve this problem is to increase the grip pressure on the last three fingers of the left hand."

Let the left hand do the swinging of the putter as it goes back and forth. In actuality, Murphy points out that the right hand does very little in the putting stroke, providing just touch and feel.

It is basically along for the ride. "People think about their right hand too much and that's when they decelerate. They think they are going to hit the ball too hard," he said.

Golfers who maintain good pressure on those last three fingers of the left hand throughout the putting stroke will quickly develop a consistent stroke without deceleration. When he's under the intense heat of competition, Murphy increases his pressure in those fingers even more than usual.

A common pitfall among amateurs in putting is to think about their stroke.

"Stroke is a paralyzing word," Murphy says. "People who think about their stroke forget how hard to hit the putt itself. I always think about swinging the putter to get the proper speed."

He points out that bad putters tend to tighten the right hand up on the club, forcing the putter blade up in the air. Invariably, on the forward swing the right hand moves too fast and slows down through impact. The player usually cuts across the ball and leaves it short of the hole. ■



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The Right Stuff

BY PAT SULLIVAN

Four Februarys ago Tom Shaw was selling real estate in Florida, Tom Wargo was flipping burgers in southern Illinois, Jim Collier was talking on television coast-to-coast and Jack Nicklaus was adjusting to the idea of being 50.

This February, those four players will usher in the beginning of a new era for the phenomenally successful Senior PGA TOUR, the debut of "The Senior Slam at Queretaro" in Queretaro, Mexico.

The TOUR's south-of-the-border expansion is scheduled for February 7 and 8, 1994 and is destined to become an annual winter appearance for the winners of four of the Senior PGA TOUR's top tournaments the previous year.

"A competition involving the winners of four of the Senior TOUR's most respected events will have great appeal," Communism Deane Beman predicts. "The opportunity to bring a competition such as this to Mexico is exciting for all of us at the TOUR."



The \$500,000, 36-hole event will be contested at Club Campestre de Queretaro, about 68 miles north of Mexico City, and will be televised in prime time by the Turner Broadcasting System.

The Senior PGA TOUR began in 1980 with two events offering \$250,000 in purses. "My God, it looks like a wax museum," proclaimed former touring pro George Low at one of those early gatherings. But since then the popular circuit, for tour pros age 50 and over, has behaved like a hot new stock issue, compounding to a current configuration of 43 events worth approximately \$30 million in prize money.

For late-forty-something pro golfers, many having faded from view after stints on the PGA TOUR, the senior circuit has been a gift – in golf terms, a "mulligan" for their careers. "I really haven't given it much thought," insisted pro golfer Butch Baird in 1983, when he was in his late 40s. "After all, I won't become eligible for another 42 months, 5 days and 8-1/2 hours."

Tom Shaw, 55, was one of those pros counting the days until his 50th birthday. As a relative youth, he won four PGA TOUR events from 1969 to 1971, struggled for another few years and finally dropped from sight with a bad back. In the 1980s he played in only a handful of events while working to obtain a real estate license.

"In my mind I never was off the TOUR, but I guess I really was," the easy-going Shaw says. "I didn't think I would be able to play with these guys; but when I was 48, I started to play everything I could. You have to play in competition a lot to get your game back."

Always a streaky player, Shaw won a tournament in his rookie senior season, 1989; but then was winless until last March's Tradition at Desert Mountain, near Phoenix, the first of the year's "senior majors." It came down to Shaw and Mike Hill over the final few holes.

"Mike just wouldn't go away," Shaw says. "All day I was about two or three shots ahead, and he just kept hanging in there. I was getting the putts to fall, and he wasn't."

"We both parred 17, and then it looked

like he'd made a two on 18 (a par 5). He hit a 5-iron for his second shot, and it looked like he'd made a two. I went over to him and said, 'C'mon, Mike, give me some slack.' And he said, 'You're going to have to win this one, Bubba.'"

Shaw hit his approach shot to the back of the green. Then he watched as Hill sank his putt for an eagle. "I chipped mine down to about 3 feet, and I had to make that to win by one," Shaw says.

And he did. Both men shot 67s that day, but Shaw's gave him a 72-hole score of 19-under-par 269, to Hill's 270.

"I was able to handle the heat," Shaw says. His reward: a trip to sunny Mexico.

In contrast to Shaw, Tom Wargo, 51, never competed on the PGA TOUR. As a club professional, however, he did a lot of other things, including cooking hamburgers in the 19th hole snack bar at Greenvue Golf Club in Centralia, IL, about an hour's drive east of St. Louis, MO.

"I've done it all," Wargo says. "Carried the garbage out. Mowed the greens. Opened up. Repaired carts. Crawled underneath 'em. Sand-bagged the basement when we flooded at three in the morning."

"I wanted to learn it all, inside and out, because I thought we might have an opportunity to own the course someday, and sure enough we own 22% of it."

Spoken like someone who knows how to watch a bottom line. And the prospect of competing against Nicklaus, Colbert and Shaw for a pile of pesos is no different for the hard-working Wargo, whose Czechoslovakian grandparents all came to the U.S. through Ellis Island barely 100 years ago.

"Fifty-thousand dollars. For last place. That's what the Slam means to me," he laughs. "You know, it used to take me about two years to make that as a club pro."

Wargo's golf swing is self-made or, as he describes it, "homemade." It is a fast, slashing swing, the type one sees more



Tom Shaw

**The Senior
PGA TOUR
began in
1980 with
two events
offering
\$250,000 in
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"Mexico is quickly developing as one of the top new golf markets."

often on two-buck-a-bucket practice ranges than on the professional tours.

"It's homemade, and I'm still trying to take the kinks out of it," Wargo admits. "Being around these guys (since qualifying for the Senior PGA TOUR in late 1992) is a big help. But it is homemade, and it can break down at times."

That's exactly what looked like might happen to Wargo as he came down the stretch with the lead in last April's PGA Seniors Championship at PGA National Golf Club in Palm Beach Gardens, FL. But even as he was making a bogey at the 16th hole, allowing Bruce Crampton to close to within two shots of him, Wargo had a secret edge.

"I could do nothing about the fine play that Mr. Crampton put on," Wargo says. "He had to catch me. I didn't want to make a mistake. I parred 17 and 18, but he birdied 17 and 18 to go into a playoff."

"Then the excitement started. On the very first playoff hole I had it in the bunker, and he had it on the green. I had probably a 25-yard bunker shot to a plateau, and I told

myself to just get it up to the plateau and get a putt at it. I did and I knocked it in, and we both made par.

"At the second playoff hole (a par 3), he pushed his shot into the water, and all I had to do was get mine on the green."

Wargo chose a 7-iron for the 160-yard shot. Was he thinking 'Just put a normal swing on it?'

"It wasn't normal, no," he says now. "All I could think about was 'Just let me get it on dry land.'"

"There was one thing that was never brought up afterward," says Wargo, who shot 13-under-par 275 over the 72 holes of regulation play. "I had won a couple of golf tournaments on that course in the past as a club professional. All I did was try to match that golf course, shot for shot. I knew how to play that golf course. I wasn't

necessarily playing the competition at the time, and that's the one big thing that helped me – I'd hit enough shots on that golf course to know what clubs to play and how to play it."

Jim Colbert, 52, was a late bloomer as a competitor on the PGA TOUR. He began on the circuit in 1966, two years after earning a degree in political science at Kansas State University. The first of his eight career wins came in 1969, but the last two didn't come until 1983, when he was 42.

From there it was a relatively short wait for the Senior events, and Colbert busied himself as a golf course designer in the Las Vegas area, where, incidentally, the royal and ancient game is booming in the '90s, and later as an on-course commentator on ESPN golf telecasts.

"Our courses are built for the people who play the game, which is the amateurs who support the game," Colbert says with his trademark grin. As a course designer, he appreciates the nuances of each layout, which is why his win last June in the FORD Senior PLAYERS Championship at the TPC of Michigan, in Dearborn, MI, meant so much to him.

"It was the first time I won on a Nicklaus-designed golf course," Colbert says of his 10-under-par 278 play that week. "When you're playing a Nicklaus golf course there's only one way to play it and that's correctly. You've got to hit the shots that his courses demand. His green structure is very difficult."

"I had the lead teeing off in the final round, lost it a little bit early to Rocky Thompson, and then got it back. I finished strongly. I made a key birdie at the 15th hole with a 4-iron, a little 3-par. And then I came back on a real tough little green at the 16th and holed about a 20-footer for birdie and gave myself a three-shot lead with two holes to play."

"And then Raymond (Floyd) birdied the 17th and 18th, and I beat him by one. When I won earlier in the year (in the Royal Caribbean Classic at The Links at Key Biscayne, FL), I beat Raymond by one, so I dodged two of his bullets," Colbert laughs.



Jim Colbert



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Congratulations to all the players
of the PGA from all the professionals at Delta Air Lines.
We couldn't be happier to have made the Tour.

 **DELTA AIR LINES**
The Official Airline Of The PGA TOUR. 

The Senior Slam, he adds, "is a big deal for me. It's a heck of an opportunity, even though one of the opponents is Jack Nicklaus. Thirty-six holes, you can win \$250,000 if you can beat the other three guys. It could be great fun."

It is a measure of Jack Nicklaus's greatness as a golfer how many times in his long career he has fended off the ravages of time – and gone on to win golf tournaments again and again.

In 1980, the year the incomparable Nicklaus turned 40, some sportswriters were penning his golf obituary. The Golden Bear simply went out and won both the U.S. Open and PGA Championships that year. End of the earth watch.

In 1986, Nicklaus was mired in a two-year victory drought. But triumphantly, at age 46, he marched across the wide fairways and greens of Augusta National to win the Masters Tournament for an unprecedented sixth time. Trailblazing the leader by four strokes with four holes to play, Nicklaus closed eagle-birdie-birdie-par for a 65 and a one-stroke victory.

Last July, Nicklaus, then 53, again brushed aside nagging doubts – this time his own – to win the U.S. Senior Open Championship at Cherry Hills Country Club, outside Denver. Once again, he had gone two years without win, since the 1991 U.S. Senior Open at Oakland Hills, a playoff victory over Chi Chi Rodriguez.

"I was at a crossroads coming (to Cherry Hills)," Nicklaus would say after his victory. "I was pretty down on myself."

Nicklaus battled longtime rival, and fellow Ohio Stater, Tom Weiskopf in the final round. Weiskopf shot a 30 on the front nine, and they made the turn tied. At the 12th hole, Nicklaus missed a birdie putt, but it was a key miss.

"As I was lining up the putt, I realized at this was the exact same putt I had in the final round of the 1960 Open." He had missed that one, also, eventually losing to Arnold Palmer by two strokes. But this time, Nicklaus was determined not to play the rest of the way as he did in '60 (3-over par over the last six holes).

He didn't, making a key birdie at the 16th hole and covering those final six in 1-under par, to Weiskopf's even-par, to finish at 6-under-par 278, a score which tied Hubert Green's winning total in the 1985 PGA Championship and was seven shots better than Andy North's winning total in the 1978 U.S. Open, both played at Cherry Hills.

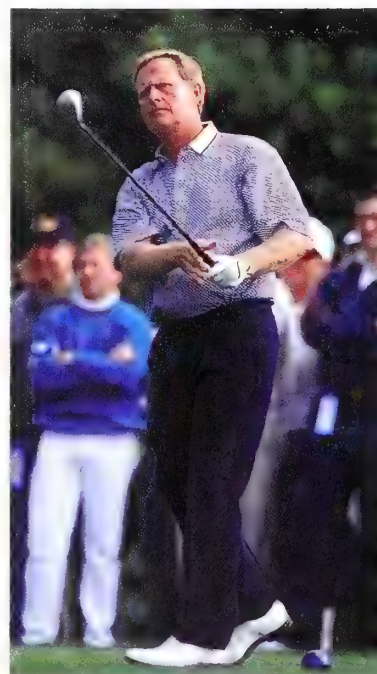
"There's nothing more fun than coming up the 18th with a chance to win," Nicklaus says. "People call that pressure. I call that fun."

"That was a week that I really had my game. Looking back on the year, that was probably my best week of golf, first round to final round. My shoulder had been bothering me all year, and I couldn't fully lift it for six months. But it didn't bother me all week. It's funny. I started swinging better and the hurt went away."

While Cherry Hills is one of the most recognizable names in golf, the Club Campestre de Queretaro remains somewhat of a mystery. But this much is known: it was designed by Percy Clifford, and the first nine holes opened in 1951. The full 18 holes, featuring a par-3 17th over water and a 451-yard, dogleg par-4 18th, can be stretched to 6,905 yards from the tips, although distances will be somewhat negated by the 7,500-foot elevation.

"Mexico is quickly developing as one of the top new golf markets," Nicklaus says. "I've already done two courses and I'm working on several others. The people of Mexico like the game, and the government and business have identified it as a great way to boost the economy through the tourism industry. I'm glad to see a U.S. event, especially a TV event, brought to Mexico."

With just four guys who four years ago were selling real estate, flipping burgers, talking into a microphone and staring down the half-century mark. ■



Jack Nicklaus

Senior *firsts*

BY JAY WILLI

The dreams of youth are of victory. Long before those dreams take on the complexity of career, of making cuts, of making checks, of making commercials, long before those dreams have anything to do with money, they are of winning.

And no victory is more pure, more important than the first one on the Senior TOUR.

Six players won their first Senior TOUR events this past season: Bob Murphy, Tom Wargo, Bob Wynn, Bob Betley, Simon Hobday and J.C. Snead.

With each victory, there is a story to tell.

Bob Murphy

First Victory: Bruno's Memorial Classic

In 1987, Bob Murphy stepped in a hole while playing in the Atlanta Classic.

His left foot and ankle quickly swelled. He had no reason to believe that the injury was anything more than a sprain, though a bad one at that.

But funny things began to happen to his body. The swelling started to migrate, into his hips and, crucially, into his hands. This was no sprain. This was arthritis.

Murphy was 44 at the time, and had won the year before in the Canadian Open, a victory of great significance to him since his previous victory on the PGA TOUR had come in 1975. Now it

seemed his whole career was in jeopardy. It became difficult to grip a club, difficult to play golf at all.

So it came as quite a personal triumph when Murphy, 50 and in his rookie year on the Senior TOUR, won the Bruno's Memorial Classic in Birmingham, AL, this past August. He then went on to win two weeks later at the GTE North Classic in Indianapolis. He had not only beaten the field, he had beaten back an illness that he continues to battle every day.

Since June 1989, Murphy has undergone treatment at the Northern Virginia Arthritis Clinic in Arlington. In the fall of 1992, the swelling in his hands subsided to the point where he could practice and play regularly. It was the first step toward his first victory.

The second step was resigning from ESPN in May. He found he couldn't play and do television commentary. "It took a couple of weeks before I got the booth out of my mind," he said. "We'd be playing and I'd be analyzing to myself what everybody else was doing. Once I started keeping my mind on my own game, things started to fall into place."

Because of his four and a half years of television commentary, Murphy felt a little added pressure to get that first victory. He had been pointing out the mistakes of others; could he now overcome his own and win? "I had to be prepared," said Murphy, "to show the guys I have been talking about for four years that I could back up what I was talking about."

Bob Betley

First Victory: Bank of Boston Senior Golf Classic

For much of his career, Bob Betley had been the King of the State Opens. From Utah to

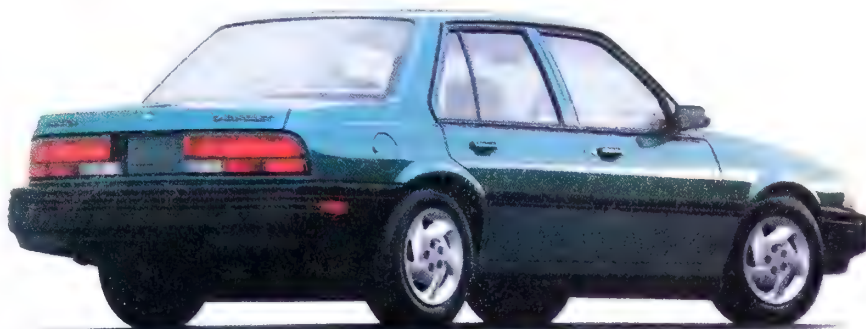




If this is your
CFO's idea of a somewhat
decent purchase,
here's something that should
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*O*kay, you'll never get a deal like Manhattan for twenty-four dollars worth of beads. But you can at least show your Chief Bean Counter that you understand his way of thinking. By choosing Chevy Cavalier as your company's fleet vehicle, for instance. Cavalier is the lowest-priced car in America with standard anti-lock brakes. It has a more powerful engine than Escort LX Sedan and Civic DX Sedan. Plus an impressive list of features. And Cavalier is priced anywhere from \$1400 to \$2000 less*. So call the nation's largest Fleet Sales and Service organization at 1-800-FLEET-OPS (353-3807). And make the purchase that'll go down in your company's history.

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Arizona to Nevada to Idaho to Colorado, Betley had won state championships and with them some fame and what served as fortune to a regional pro with only the slightest experience on the PGA TOUR.

He made his way onto the Senior PGA TOUR in 1990 and through those first three years his career was distinguished by the fact that he had lost the longest playoff in Senior TOUR history, going down on the eighth extra hole to Orville Moody in the 1992 Franklin Showdown Classic.

The Northville, Long Island Classic was a tournament that Betley thought he might skip last summer, looking for a break after a grueling schedule. But a last-minute decision brought him to Long Island, where he finished second.

Betley then won his first Senior TOUR event, the Bank of Boston Senior Classic, the next week. And unlike winning the Nevada Open, the victory really did things for him.

"It's nearly a complete lifestyle change," said Betley. "I was somewhat of a Monday qualifier. I couldn't always be certain of where I was going to be playing. Sometimes I'd be a second or third alternate and not get in. Now the victory makes everything so much easier."

Betley continued to play well after his victory and went on to place among the top 31 on the money list for the 1993 season, which makes him exempt for all of 1994.

Tom Wargo

First Victory: PGA Seniors' Championship

Tom Wargo picked a doozy for his first victory on the Senior TOUR. The extra glare of a major championship didn't wilt Wargo on that final phenomenal Sunday, and he came away with the PGA Seniors' title that players like Jack Nicklaus, Lee Trevino, Tom Weiskopf and Bruce Crampton were chasing.

Wargo is the Everyman of Senior Golf, which is to say that he's been about everything short of a neurosurgeon and President of the United States. His PGA victory was a victory for the common man, or was it? Just how common is the player who lived on a salmon boat in Alaskan waters, who worked the assembly line for General Motors, who



Tom Wargo

He owned the part that allowed him to mow the greens and the fairways and flip hamburgers in the snack bar. But in his role as a club pro, he was named the 1992 PGA Club Professional Player of the Year.

That was the tip-off for his performance the third week of April last year. And there had been an additional hint when he contended for the first two rounds of the PGA Championship at Bellerive in 1992.

And while it's likely that the rest of Wargo's career will be spent flipping wedges rather than burgers, he chooses not to get ahead of himself. "One year doesn't make a career," he said. "I've got a long, long way to go before I can call myself a successful Senior TOUR player."

Bob Wynn

First Victory: NYNEX Commemorative
Sometimes a victory is not a weight lifted from the shoulders.

Sometimes, like a golf bag with four wedges, three dozen balls and an extra pair of shoes, it can be downright heavy.

When Bob Wynn rolled in a 22-footer on the final hole at the NYNEX Commemorative to win last June, he felt the euphoria that comes with triumph.

He had fulfilled a goal for the season faster than he could have imagined.

"The victory was definitely bittersweet," said Wynn, who had won once, in 1976, on the PGA TOUR. Before the NYNEX victory he was basically the answer to a trivia ques-



Bob Wynn



Bob Betley

tion: Who is the only professional to play on the PGA TOUR, the NIKE TOUR and the Senior PGA TOUR in the same year? Wynn in 1990.

Because his career had not been filled with victories, he had no such experience that let him be comfortable with that first one on the Senior TOUR. Instead, it became a burr under the saddle. Maybe if he changed his swing a bit, if he went to a draw instead of a fade, maybe if he changed the grip a little, the stance a little, tried to hit it higher, maybe he would get that second victory faster.

"I'd forgotten that you don't change what got you there in the first place," said Wynn. "It seemed like I lost my whole swing sequence. My whole world turned upside down."

While the 1993 season ended with a crown, Wynn maintains that he will open the 1994 season with a smile.

J.C. Snead

First Victory: Vantage at the Dominion
Just because J.C. Snead is a hunter, just because he doesn't particularly mind carrying a buck on his broad shoulders through the woods of Virginia, that doesn't mean that he enjoyed carrying a very large monkey on his back through his first three seasons on the Senior PGA TOUR.

A lot of people, first and foremost, Jesse Carlyle Snead himself, expected him to win quickly on the Senior TOUR. J.C. has been carrying that Snead name around for a lifetime, and the burden of his uncle Sam's reputation was often too much to live up to. Yet he proved he could play and win on the PGA TOUR, counting up eight victories and more than \$2 million in prize money in 22 years.

His first Senior TOUR victory came last March at the Vantage at the Dominion, and maybe being a hunter helped. The Vantage was played during the Storm of the Century, the

J.C. Snead



big haymaker of a storm that gathered strength across America's heartland then landed a heavy blow along the East Coast. The storm's southern tip ripped through San Antonio the weekend of the Vantage, and the wind chill factor dropped into single digits.

"No doubt I think that was the worst conditions I ever played golf in," said Snead. "You just have to hang in there and play decent. Don't get me wrong. I was real happy to win. But I guess I'm just waiting for the day when the conditions are great, the field is great and I go out the last day and blow everyone out of the water."

Simon Hobday

First Victory: Kroger Senior Classic
Simon Hobday's feet used to burn whenever he walked onto a green.

Yes, putting was a bloody hell to Hobday until he won his first Senior TOUR event, the Kroger Senior Classic at Cincinnati in July. Then enough putts dropped to soothe his tingling soles, not to mention his tingling soul.

"I swear, it's true," said Hobday of his burning bunions. "I putted so bloody badly that my feet would hurt the minute I walked on a green. It was like walking on hot coals. I would stand off the green until it was my turn to putt, then run on and get it over with. It's bloody hell, putting."

Hobday had been lurking close to victory for two years, so when victory finally came, a sense of vindication came along with it. "I don't know how many times I had come close and just blew it," said Hobday. "I'd

become too aggressive, just pushing, pushing, pushing. I'd knock a 3-iron over the green into a lake and there would go my chances. If you watch Lee Trevino or Dave Stockton, they just let it happen. They just go along with what they've got. In Cincinnati I was bloody nervous but I went along with what I had and it was enough." ■



Simon Hobday



It Not Only Sa
It Says You Beat Eve



ou've Arrived,
ne Else There.

The 280-Horsepower Lincoln Mark VIII

By their very nature, luxury cars are intended to enhance your image. Most, however, do very little for your heart rate. Not the Lincoln Mark VIII.

Its 32-valve, 280-horsepower Four-Cam V-8 reaches 60 miles per hour in a heart-pounding 7.8 seconds. However, should it become necessary to exercise restraint, we've also included standard 4-wheel anti-lock brakes. And a revolutionary suspension that automatically lowers the car at high speed for better handling and less wind resistance. So the Mark VIII doesn't just hold the road, it sinks its teeth into it.

To find out more, call 1 800 446-8888. Or, better yet, visit your Lincoln dealer for an invigorating test drive.

You'll find that while most luxury cars speak quietly of your accomplishments, the Mark VIII is one car that's not afraid to raise its voice.

The Lincoln Mark VIII. Drive everything else first.



LINCOLN

What A Luxury Car Should Be

CONNOISSEUR

CLASS



♦ ♦
le filet mignon

avec filet de bœuf grillé

avec sauce au beurre

avec pommes de terre

avec du foie gras et

des légumes aux herbes de

♦ ♦ ♦
Sous votre demande, nous proposons
un menu à la carte à l'attention de
nos clients plus de temps au travail

Executive P.

avec nous vous proposons
un menu à la carte et au
prix de détail en

Un pl.

avec nous

avec nous

avec nous

Some like it haute.

Those who prefer their sustenance steeped in elegance will delight in the cuisine of Connoisseur Class.™

As we fly you from continent to continent, our award-winning *chefs de cuisine* will guide you to more heavenly destinations.

Where there's caviar in the canapés, Burgundies and Bordeaux on the wine list, and culinary inspiration in every choice of entrée.

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Come fly the airline that's uniting the world.
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UNITED AIRLINES

THEY KNOW WHERE YOU LIVE —AND HOW YOU BUY

If you consume, you can't hide from Zip Code seer Claritas

You're 35 years old. The price tag on your suits shows that you're a success. You drive a Volvo. You know your way around the olive-oil section of the store, buy fresh-ground coffee, and go on scuba-diving trips. You're living out your own, individual version of the good life in the suburbs. You're nique—not some demographic cliché.

Wrong. You're a prime example of Kids & Cul-de-Sacs," one of 22 new consumer groups in PRIZM, Claritas Inc.'s demographic taxonomy of Americans by postal Zip Code. For the past 20 years, PRIZM (Potential Rating Index by Zip Market) has been among marketers' favorite tools for finding consumers. Restaurants, banks, and stores use the Alexandria (Va.) company's PRIZM to pinpoint the best locations for new outlets. Direct marketers tap it to target mailings. Ad agencies comb PRIZM for insights on consumers. Often, they find surprises: "Executive Suites" has a lot of Spam fans; the

new migration to the suburbs. "Young Literati" taps Generation X. There's even a place for aging hippies—"New Ecotopia." Behind the cutesy names are important trends, Claritas executives say. "The goal," notes David Miller, 43, the quiet, lanky statistician behind PRIZM, "is get-

FACTOIDS OF THE NEW AMERICA



Three of PRIZM's new demographic clusters, with selected traits and median household income

RURAL INDUSTRIA

Young families in heartland offices and factories

LIFESTYLE Trucks, True Story, Shake'n Bake, fishing trips, tropical fish

INCOME
\$22,900

ting the right message to the right person."

The new upgrade, which will debut in February, is also the latest volley in marketing's information wars. The number of companies keeping data bases of individual consumers has exploded. Supermarket checkout scanners, meanwhile, are enabling legions of marketers to track how their products really fare on the ground. Some say that leaves PRIZM—which lumps people into groups—at a disadvantage. "The future lies with technologies that count real people and actual purchases," says Laurel Cutler, worldwide director of marketing planning for ad agency Foote, Cone & Belding Communications Inc.

Demand for information has been particularly feverish in this sluggish economic recovery. In many categories, marketers can increase sales only by capturing market share. Good research is a competitive advantage, says Cutler. Claritas, which had 1993 sales of \$35 million and is

a division of the Dutch company VNU, can't afford to fall behind.

PRIZM is founded on the notion that "birds of a feather flock together." The idea is that people who live in the same neighborhood tend to buy the same types of things. Jonathan Robbin, who designed the original PRIZM data base, broke U.S. Census Bureau data into Zip Codes and analyzed each for social rank, mobility, ethnicity, family life cycle, and housing. The Census data are supplemented with market-research surveys and other statistics from suppliers such as A.C. Nielsen Co. and information from 1,600 municipal and regional agencies. The current version of PRIZM segments America not only by Zip Codes but by block tracts and Zip-plus-four as well. The most expensive model, including mapping software, costs more than \$100,000 a year to license. But reports go for as little as \$99.

VIBE APPEAL. Marketers in a broad range of industries are ponying up. Premier Bank in Baton Rouge, La., merges PRIZM with its internal data base to find neighborhoods with lots of households that match the traits of its best customers. Ad agency Ammirati & Puris Inc. combined PRIZM with other research to create MasterCard's "Smart Money" ads.

Time Inc. Ventures used it to get its new urban-culture magazine *VIBE* over a hump. Advertisers were convinced *VIBE* was just for inner-city kids. PRIZM showed it also appealed to white-collar "Young Influentials" and middle-

AMERICAN DREAMS

The emerging, upscale, ethnic, big-city mosaic; one in five is foreign born
LIFESTYLE Import cars, Elle, Mueslix, tennis weekends, designer jeans

INCOME
\$46,100

blue-collar households of "Rural Industria" are a good market for pagers; and "Golden Oldies" seniors love theme parks.

WINNER WARS. The new upgrade, which brings the total number of consumer segments in PRIZM to 62, is the latest sign of how the nation's increasing ethnic and economic complexity is changing consumer-marketing. Old PRIZM standbys, such as "Suburbs & Station Wagons" and "Shotguns & Pickups"—PRIZM is as well-known for its useful names as its insights—are being joined by new clusters. "American Dreams" reflects new waves of immigrants. "Kids & Cul-de-Sacs" points to

CASHMERE & COUNTRY CLUBS

Aging baby boomers living the good life in the suburbs

LIFESTYLE Mercedes, Golf Digest, salt substitutes, European getaways, high-end TVs

INCOME
\$68,600

DATA: CLARITAS INC. • BW

aged "Money & Brains." The result: ad buys from vodka and consumer-electronics marketers.

Ultimately, that's where the consumer-research wars will be won: sales. In these tough times, figures Claritas, what marketer wouldn't be piqued by the notion that those blasé "Young Literati" buy lots of Cheerios?

By Christina Del Valle in Alexandria, Va., with Jon Berry in New York



What can you do with a Versa? What do you have in mind?





You are an

unfinished book.

Our new Versa notebook is

A work in

flexible enough to help you

progress. A

with all the pages of your

growing stack of

life. It's a canvas with a key-

unbound pages;

board. A power tool with a

the story of all

trackball. It's perfect for shar-

you are, and will

ing ideas with people right

be. There are

in front of you or, using its

pages devoted

advanced communications

to the things

capabilities, a continent

you have to do:

away. The artistry of its new,

Edit your report.

brighter, active-matrix color

Work on your

screen could well inspire you

presentation.

to some artistry of your own.

There are other

While its unique, color

pages full of the

TouchPen™ capability invites

things you like to

precise annotating, or

do: Music. Art.

impassioned finger-painting

Travel. But most

(For up to 10 hours on a

are full of ideas

single charge.) Named

that you'd like

"Best of 1993" by PC Mag-

to share with

azine,* Versa can be a note-

the world. That

book, a desktop, or a tablet

you've got to

Above all, its modular

share with the

design lets it expand for

world. You are

changing needs and new

an unfinished

technologies. Because in

book. And the

technology as in life, there's

best part of the

a new page written every day

story is, you'll

never be done.



NEC

LEASING FEVER

WHY THE CAR BUSINESS WILL NEVER BE THE SAME

The Shortino family of Lodi, N.J., may never buy another car. Joe, a construction worker, and Johanna, a part-time clerk, decided three years ago to dump their aging Datsun and lease a new Cadillac Eldorado for \$550 a month. When their lease expires in May, the couple, who earn about \$40,000 a year, will likely turn in the Eldorado for a new Caddy. Daughter Samantha, meanwhile, recently gradu-

ated from college and leased a Geo Storm subcompact for \$240 a month. "We're pleased," says Johanna. "We'll probably lease more cars—mostly to save on the downpayment."

The Shortinos are part of a trend that is transforming the U.S. auto market. Once, doctors, lawyers, and small-business owners were about the only folks who leased, because they could deduct part of the cost as a business expense.

But today, millions of middle Americans are following suit for everything from BMWs to pickup trucks. One-fourth of cars and trucks sold in 1993 went out the door under lease. All told, that was \$43 billion worth of vehicles, according to CNW Marketing/Research in Bandon, Ore.—quadruple the 1984 figure. By the end of the decade, some auto executives predict, half of all cars and trucks will be leased. The proportion is already 60%

TOYOTA COROLLA 27%

\$13,948

STICKER PRICE

\$179

MONTHLY FOR 3 YEARS, \$500 DOWN

Note: Percent indicates share of unit sales that are leases. Sticker prices are for typical models. Actual lease payments must be negotiated with individual dealers



FORD F-SERIES 21%

\$17,383

STICKER PRICE

\$283

MONTHLY FOR 2 YEARS, \$1,500 DOWN



new cars in upscale areas such as Marin County, Calif. Nationwide, more than half of luxury cars are moved this way—led by the Jaguar XJ models at nearly 90%.

ACCORD BUSTER. In fact, the industry may have found a more potent marketing tool than the rebates of a decade ago. About 75% of car buyers need some sort of financing, and with interest on car loans no longer deductible leasing's relatively low monthly payments are enticing. They helped pull the industry out of its steep recession of the early 1990s and helped Ford's Taurus topple Honda's Accord as America's best-selling car in 1992. The Japanese learned from that. Now, they're using leases to offset the shock of higher prices forced by the strong yen. "Leasing provides great camouflage for price increases," says Richard L. Recchia, executive vice-president at Mitsubishi Motor Sales of America. Altogether, estimates CNW Vice-President Art Spinella, leasing's allure sparked

sales of an additional 945,000 cars and light trucks in 1992, the most recent year for which figures are available, boosting the U.S. total to 12.9 million.

Beyond that, leasing may restore a measure of the fierce brand loyalty carmakers enjoyed in the '50s and '60s. Instead of merely selling a car and waving bye to a customer, auto makers are trying to strike up relationships. "It's a fundamental change," says J. Michael Losh, General Motors Corp.'s vice-president for North American marketing. Ford Motor Co. officials say their two-year leases leave consumers so satisfied that nearly 50% come back for another Ford—twice the rate among traditional buyers. That's money on the bottom line for an industry that spends \$500 per car in advertising to lure customers from rivals.

Leasing is having ripple effects on other car company operations. The auto makers' finance arms—the vehicles for leasing—are luring business away from

banks and other finance firms. Products are getting more frequent face-lifts and new features to keep customers coming back. Some executives even believe leasing may help tame the industry's notorious boom-and-bust sales cycle. They figure lessees can't defer new-car decisions the way most owners can—though about one-third now buy their vehicle rather than opt for a new one.

Wow! What's the catch? Well, for one thing, leasing isn't for everyone. Drivers face stiff penalties—up to 15 cents a mile—if they go over the typical 12,000- to 15,000-mile annual limit. Those who are rough on vehicles can be stunned by hefty bills for excess wear. Customers build no equity—and may be lured into owing monthly car payments for life. "When all things are considered, it is generally better economically to buy than lease," says William Dunn, a tax expert at Coopers & Lybrand.

For carmakers, meanwhile, lease fi-



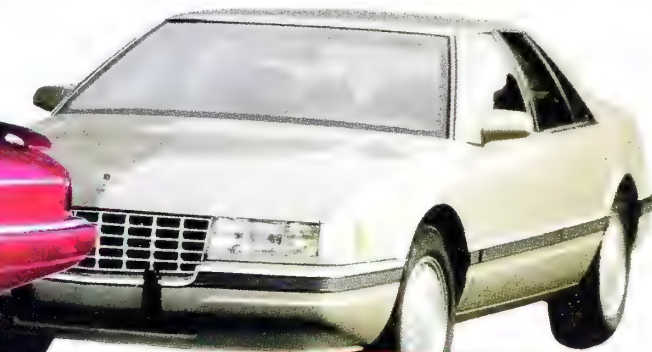
JAGUAR XJS 88%

\$60,530

STICKER PRICE

\$749

MONTHLY FOR 3 YEARS, \$2,500 DOWN



CADILLAC SEVILLE 49%

\$43,143

STICKER PRICE

\$539

MONTHLY FOR 2 YEARS, \$2,200 DOWN



INFINITI J30 46%

\$36,950

STICKER PRICE

\$399

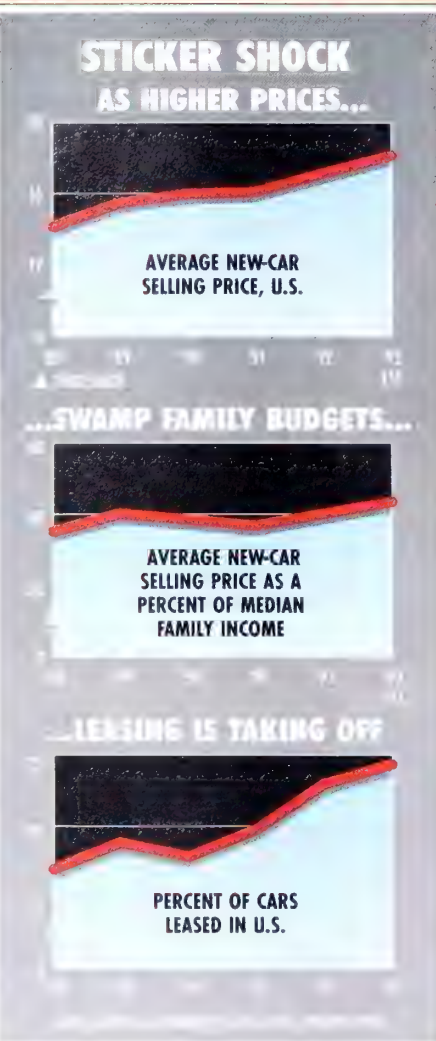
MONTHLY FOR 3 YEARS, \$2,450 DOWN

nancing is inherently dicier than bankrolling a purchase. The carmaker's finance arm typically buys the vehicle and rents it to the driver. To set monthly payments, it uses past used-car values to estimate the vehicle's worth, or "residual value," at the end of the agreement. If it guesses high, the accumulated lease payments won't have made up the difference between the used car's value and the original purchase price—and the lessor can lose thousands on just one car. "Setting a residual value is hardly a science," says Paul Getman, an economist at the Regional Financial Associates, an economic consulting firm.

POTENTIAL TRAP. The biggest uncertainty is what effect the rising flood of cars coming off lease will have on used-car prices. Carmakers "will surely do this to excess if we're not careful," warns Recchia at Mitsubishi—which is trying leases to jump-start sales of its new Galant sedan. Victor H. Doolan, who heads BMW of North America, is wary of short leases: "You start to compete with your new cars," he says. To hedge their risks, the carmakers are mounting aggressive efforts to refurbish and remarket returned cars. But it's so early in the game that "nobody knows if there's strong enough demand for three- to four-year-old luxury cars," says CNW's Spinella. Moreover, if carmakers that jump in then sour on leasing, bailing out quickly could be marketing hell.

For now, there's one other drawback: Competition on leases isn't great for margins. Some carmakers pay hefty subsidies to their finance companies to keep monthly payments down. Those are the '90s equivalent of 1980s cash rebates, and they're generally used to pay part of the interest or artificially boost the vehicle's residual value. At Ford, which last year leased more than 20% of its cars and light trucks, that cost about \$1,340 a pop in 1993's fourth quarter, figures John V. Kirnan, a Salomon Brothers Inc. analyst. Ruthless competition among luxury carmakers has forced some brands, such as Nissan's Infiniti, to offer subsidies of up to \$10,000 on top-end models, says Dick Biggs, president of Biggs Automobile Leasing Corp. in Roswell, Ga. "It's competition over how to reduce the monthly payment," says Mitsutaka Kurumisawa, a Nissan planning executive.

That's because the leasing boom is fueled by a stark reality: Many consumers can't afford today's wheels. In 1993, the average price of a car was \$18,100, a 69% jump in 10 years, according to the National Automobile Dealers Assn. Family earnings, meanwhile, have lagged behind. Based on median household in-



come, consumers now spend about 26 weeks of wages on a new car, up from 22 a decade ago. In the 1980s, carmakers cut payments by extending loans to five years, but that backfired: Consumers often tired of their cars in two or three years, only to find they owed more than the cars were worth.

Leases skirt the affordability problem more neatly. Consumers don't have to tie up much cash in a downpayment, though paying more to start lowers the monthly rate. There's usually a security deposit of one monthly payment, but that may be waived for repeat customers. Most important, lessees pay only for the portion of a car's value they use. A \$36,950 1994 Infiniti J30 will be worth about \$19,580 in three years. That means the customer pays the difference: \$17,370. Monthly payments for a three-year

lease are \$399, compared with about \$630 for a five-year loan. So leases let some consumers drive spiffier cars than they could otherwise. And carmakers are playing that up: "For those with more sense than money," promises an ad for a \$399-a-month lease on a Saab 9000CS.

Ford's customer surveys also show that those with short-term leases are twice as satisfied as traditional buyers and thus more loyal. The goal is to build a strong repeat business—then dial back on subsidies, says Robert L. Rewe, vice-president for North American sales. So far, so good. Last year, the company's lease business, covering most models from the Lincoln Mark VIII luxury coupe to the Ford Escort, skyrocketed 65%, while industry leasing volume grew just 16%. Since 1990, when Ford began promoting the tactic, its share of the U.S. car and truck market has jumped nearly two points, to 25.5%.

FAMILIAR FACES. Some dealers are doing even better than that. Tasca Lincoln/Mercury in Seekonk, Mass., has experimented with leases since 1982 and the past five years offered only two-year contracts in a joint-research deal with Ford. In 1993, some 75% of customers chose that option, says owner Robert F. Tasca. Since 1989, a healthy 62.3% of Tasca's customers have returned for another car—the highest rate among Ford's 5,000 dealers. That has helped triple Tasca's share of his Providence (R.I.) market in the past decade to 16%. It has also cut sales staff defections, easing one of a dealer's headaches. Turnover plummeted to just 5% a year in 1993, vs. 125% among other dealers in his market. "I got a headstart on the world," Tasca brags.

Now, other carmakers are giving chase. Committed to a value-pricing program and wary of the low residual value of many of its models, GM has been slow out of the gate. But eight months ago, General Motors Acceptance Corp., the No. 1 carmaker's huge finance arm, expanded an effort to teach GM salespeople about leasing. GMAC hired 100 trainers

HOW LEASING HELPS CARMAKER

- ▶ Brand loyalty and customer satisfaction grow
- ▶ Direct-mail marketing is more effective
- ▶ The industry's sales roller coaster smooths out
- ▶ Dealers get a steady supply of good used cars
- ▶ Attracts younger buyers to luxury brands
- ▶ Unlike rebates, leasing masks marketing incentives and doesn't undermine sticker price

addition to 600 already in place at regional offices and GM's marketing divisions. Now, such divisions as Cadillac are subsidizing leases on some models, such as Eldorados, to match Lincoln's low monthly payments. "It's important to be competitive," says Josh, who figures that the proportion of vehicles GM leases could double, to about 25%, in the next few years.

As they try to fend off a surging Detroit, Japanese armakers are throttling, too. The strength of the yen has forced their prices 2,000 to \$3,000 above those of comparable domestic models, hammering sales and costing the Japanese 3 points of market share in 1993 on top of two points in 1992. The obvious cure: lease more, fast.

For the moment, the Japanese have one advantage: Their reputation for quality bolsters residual values, so despite higher prices, their monthly payments are competitive. A 1994 Toyota Camry LE will be worth about 47% of its \$22,263 stick in three years, according to the independent *Automotive Lease Guide*, vs. 35% for a '94 Taurus LX costing \$19,420 new. That means a three-year lease customer must pay for \$11,800 of the Camry's value, vs. \$11,069 for the Taurus. Toyota can easily make up the \$731 difference with, say, lower interest charges. The gap is narrowing, however, as Detroit pulls even on quality. For instance, as recently as 1991 the difference in residual value between the Camry and Taurus was 10 percentage points. The disparity disappears, as is certainly possible, the Japanese could lose their leasing edge.

In the meantime, leasing is leading



THE CUSTOMER

"We'll probably lease more cars...to save on the downpayment"

Johanna Shortino, with her husband and daughter, in Lodi, N.J.

to faster product makeovers Ford officials worry that returning lease customers might look elsewhere if the company's vehicles haven't been changed. So the company is making sure its cars offer something new every two years—different colors, sleeker exteriors, new dashboards. This turns up the heat on Ford's inefficient engineering operations.

The effort to boost customer loyalty is also steering carmakers toward greater cooperation with their dealers and finance arms. Where finance companies once made loans and walked away, now, at GM, Ford,

and other companies, they're alerting dealers a few months before a customer's lease expires. That gives salespeople a headstart on talking up new products. Marketing departments are slipping promotional material into the bills sent out by finance arms.

FEWER HEADACHES. Relationship marketing, the effort to form bonds between customer and company, has been one of Detroit's glaring weaknesses. But as auto executives survey the more than 600 well-designed, high-quality vehicles on the market, they're deciding that pampering customers may be the only way to thrive. "Leasing is a good weapon in the arsenal of the relationship manager," says marketing expert Don Peppers, co-author of *The One to One Future*. Lease customers usually have fewer headaches, since new cars tend to be problem-free. It will take more than that, however, to build long-term loyalty. Carmakers need to get dealers to deliver better price and quality on maintenance and repairs, says Don E. Schultz, a marketing professor at Northwestern University. Dealer service "is the weak link" in car marketing, he says.

Another challenge for manufacturers is learning how to run a used-car business. Toyota Motor Corp.'s Lexus luxury division, for instance, has 9,000 1991-model

...AND COULD HURT THEM

...of vehicles coming off lease could depress used-car prices and steal from new-car sales. Finance arms face greater uncertainty than with outright sales because profits depend on predicting what a car's value will be when its lease expires. Selling leases requires more labor at the dealership, and the company, boosting staffs

cars coming off lease this year, most of them top-of-the-line LS400s that originally sold for about \$40,000. To make sure their prices hold up, Lexus has an aggressive program. Returning cars get a thorough inspection, new tires, repairs, and an extended six-year, 70,000-mile warranty. Other carmakers, including Ford, Mercedes, and BMW, have similar programs. BMW will even warranty some repairs, such as major drive-train work, on cars with up to 102,000 miles.

So far, consumer leasing is largely a North American phenomenon. Jaguar,

values, just as it does for buyers who default on loans. And when Ford or Lincoln executives ask for an unrealistically high residual value on a specific model to achieve an attractive monthly payment, the divisions have to cough up the difference up front—in cash. “We’re not talking about something that’s betting the company,” says Chairman William E. Odom. Analysts who have studied leasing, such as J. P. Morgan’s David Bradley, tend to agree.

Likewise, some industry executives believe the worry about a used-car glut

ers tend to dicker less than buyers, which means heftier margins. Lease customers are also more apt than traditional buyers to return to the dealer for maintenance. Perhaps the biggest bonanza is that vehicles coming off lease are a good source of late-model used cars. Increasingly, used cars are more profitable than new ones. Tasca, the Massachusetts Lincoln/Mercury dealer, once made a quarter of his money in used cars; now it’s 62%. “That two-year trade coming back is gold,” he says.

The big losers will be banks and independent finance companies that once handled a chunk of the leasing business. A few, such as General Electric Capital Auto Lease Inc., are forging alliances with importers. But others, such as Chase Manhattan Auto Finance, are getting squeezed out as brawny captives such as GMAC muscle in with cheap money and subsidized leases. Foreign makers such as BMW, which once used U.S. banks, are setting up their own finance companies. “If you do the banking business, the whole thing will be more profitable,” says Karl H. Gerlinger, former chief of BMW’s U.S. operations and now head of sales for Central Europe.

WEEKEND WANDERERS. To keep building momentum, auto makers are concocting new schemes. In January, Ford unveiled test-marketing in Las Vegas on a year lease that gives customers a new car every two years for a fixed rate and leaves them owning the last one. The company is still considering whether to do that nationwide. Ford may also cook up a deal for urban residents who want to lease a car only on weekends. Mercedes-Benz is eyeing a plan to allow customers to swap vehicles in mid-lease—in case they want a convertible the summer, for instance. Some companies are even contemplating a “travel salesman special” by which the customer would pay for, say, 30,000 miles of use however long that took.

Such ideas are a tacit admission that the surge in car prices won’t abate. They’ll likely rise \$1,500 or more in the next two years as carmakers comply with government regulations on emissions and safety. With income growth stuck in low gear, more consumers may decide that leasing is the least painful route to a new car. “The only thing I don’t like is the monthly payment,” gripes Johanna Shortino. That’s the bumper: For some, the bliss of life without car payment may be gone for good.

By David Woodruff in Detroit, with Larry Armstrong in Los Angeles, Joe Templeman in Bonn, Julia Flynn in London, and Christopher Farrell and J. Berry in New York



which leases more than 70% of the cars it delivers in the U.S., leases just 16% in Britain. That’s mainly because lease payments are subject to a 17.5% value-added tax. Besides, most European consumers like to buy. In Germany, 20% of cars are leased, but virtually all of them by companies. Still, recession-wracked Europeans are trying the idea: “It’s the wave of the future,” says C. Len Hunt, director of British operations for Jaguar.

RESERVE FUNDS. Not every company is a leasing fanatic. Chrysler Corp isn’t, for instance. Bolstered by sales of new models such as the Dodge Ram pickup, the company earned a record \$2.4 billion in 1993, before accounting charges. Because of that, and because until late last year its junk-level credit rating locked it out of the capital markets that provide lease financing, Chrysler leases only 8% of its vehicles. Company executives also feared that a swing in used-car values could wipe out profits on leases. “We thought Ford was taking a big risk,” says Thomas J. Osborn, planning director for Chrysler’s marketing staff—which is still watching to see if the gamble pays off.

Companies with the most experience in leasing downplay the downside. Ford Motor Credit Co. sets aside reserves to cover any unexpected slump in used-car

THE DEALER

“That two-year trade coming back is gold,” says Robert Tasca

A salesman holds forth at Tasca’s dealership in Seekonk, Mass.

is overblown. About 15 million used cars are sold each year by new-car dealers, according to NADA. Used-car dealers and individuals sell millions more. The cars coming off lease will be a diverse group of products returning in a fairly steady flow throughout the year. “It’s a very manageable situation,” says Peter E. Gerrosa, general sales manager at GM’s Cadillac division. The real test, however, will come later this decade as leasing starts to approach 50% of the market—and perhaps 7 million cars and light trucks come back each year.

Until that day of reckoning, some of the biggest winners will be car dealers. When consumers move up to classier wheels, dealer profits improve. And because the focus is on monthly payments, rather than sticker price, lease custom-

IS IT A DEAL? THE ARITHMETIC OF LEASING

As carmakers jostle for a marketing edge, the decision to buy or lease a car is getting increasingly complicated. Bargains are there if you keep a sharp eye—and know what to look for. Last summer, for instance, Honda Motor Co. gave cut-rate leases on '93 Accords to make way for '94 models. A lease on a \$47,000 Infiniti Q45 sedan includes an automatic break of up to \$10,000. Q45 buyers, by contrast, have to bargain for every penny.

Before racing off to find your dream-mobile, though, make sure leasing is for you. Buying or financing a car is still the best choice for many folks. You might lease instead if you want lower monthly payments or have little cash for a downpayment—though you will have to pay a one-month security deposit. Remember that leasing is just a long-term rental arrangement; at the end, you own nothing at all. What's more, leasing carries risks. Be sure you can stick with the full two- to four-year term, since bailing out early may cost you up to six extra monthly payments. And you should also know that in many states, leased cars aren't covered by "lemon laws."

There's more to be wary of. If you drive a lot, the typical charge of 12¢ to 5¢ for each mile over the allotted 2,000 to 15,000 can drain your bank account. When you turn the car in, you'll pay for anything beyond normal wear and tear. Also, find out what happens if the car gets stolen or totaled: Your insurer will reimburse you for the car's market value. But that may not cover what's due on the lease. So-called gap insurance can bail you out, but don't pay a lot for it. Haggle, and the dealer may throw it in free.

CORPORATE WELFARE. If you can dodge these potholes, the newest leasing deals may change the rules of the road in your favor. The most tempting leases, for two or three years on many family sedans and luxury cars, "are being subsidized anywhere from \$3,000 to \$10,000," says Dick Biggs, president of Biggs Automobile Leasing Corp. in suburban Atlanta. Those subsidies are what the carmaker gives a finance company to lower lease payments. They can make a big difference. A Cadillac DeVille with a sticker price of around \$5,000 and a \$2,200 downpayment currently leases for about \$469 a month for two years on a subsidized plan, vs. \$36 with no subsidy.

You'll want to decide whether to make a downpayment: If you can handle slightly higher monthly payments, you may want to keep your wad of cash to play with elsewhere. For example, skipping the \$2,000 downpayment on a \$23,000 Chevy Blazer means you'll pay \$357 a month for two years—\$86 more a month. If you kept the \$2,000, you could earn \$420, assuming a 10% annual return, for a net gain of \$356. Of course, if you only earn 5%, your gain isn't much.

In short, picking out the best deal can be tricky, and some dealers don't help. In most states, they aren't required by law to disclose all the leasing details—not even the car's price, which is the starting point for figuring payments. Still, many dealers will tell you what you want to know. If yours won't negotiate openly, move on.

To figure out what kind of deal you're getting, approach the question as a banker would. For starters, you

ure it out, add together the car's original price and its residual value (\$30,000 in the above case) and multiply by what leasing companies call the "money factor." Let's say that's .00375 or the equivalent of about 9% interest—yielding a sum of \$112.50. Add that to the monthly depreciation, and you get your unsubsidized payment: \$529.17. By comparing that total with the payment the dealer is offering, you can determine the subsidy. Auto makers usually either subsidize the interest rate or jack up the residual value to reduce your payment. If you plan to buy the car when the lease ends, you should check whether the residual value has been inflated. A glance at *Automotive Lease Guide* can tell you.

DOWNPAYMENT DECISION. Some other techniques may save you money—depending. Lexus and BMW will lower your monthly payment if you put down a larger-than-required refundable security deposit. For example, the de-

WHY COSTLY IMPORTS CAN COMPETE

Though their sticker prices are often higher, auto makers from Japan and Europe can use leasing to get an equal footing in the U.S. Monthly lease payments are determined largely by the difference between the sticker price and the eventual resale, or residual, value of the car once the lease expires. Here's an example:



need to negotiate a price. In leasing jargon, this is called the "capitalized cost." Let's assume that's \$20,000 (or \$18,000 if you make a \$2,000 downpayment). Next, determine the car's "residual value"—its worth at the end of the term. You can find that in *Automotive Lease Guide*, a reference volume found in banks or the library. In this example, a car with a residual value of 50% will be worth \$10,000 at the end of the term. The difference between the residual value and the original price is the depreciation. Divide that by the number of months—say, 24—and you get \$416.67.

Calculating interest is the next step—and you may wish you had learned your high school math. To fig-

posit on a typical three-year lease with \$550 in monthly payments is \$550. If a buyer plunks down \$3,300 instead, the monthly payment drops by \$50, a reduction of \$1,800 over three years. That's a good deal if you think you can earn only 10% a year by investing the \$2,750 you don't have to put down—which would net roughly \$900. But if you plan to make 20% a year playing the market, the larger security deposit doesn't make sense.

Leasing adds complexity to the already difficult decision of what vehicle to buy. But if you take the time to dig into the numbers, it may pay off for you.

By David Woodruff in Detroit, with Edward C. Baig in Washington

HOW DO YOU CLONE A GREENBACK?

Too many biotech outfits are diving into the same pool of capital

The blessing and the curse of the biotech business is that investors either love it or hate it. Companies with "bio" or "gene" in their names seem to divide their time between holding a hat under a spigot that spews money—or taking cover as every stock in the industry indiscriminately sells off.

The latest of these unhealthy cycles started with a lovefest back in 1991 in which investors forked over a record \$5 billion. As biotech companies have eaten into those funds, they have struggled with increasing desperation to replace the money they have spent. This is the battle that will preoccupy most of the industry in 1994.

In some ways, biotech companies are entering this year in surprisingly strong condition. A sell-off of stocks in last year's first half, occasioned by product setbacks at high-fliers Centocor, Synergen, and MedImmune, temporarily cost investors \$40 billion on paper. But the industry ended up raising \$3 billion in 1993, its second-best year ever. The chill seems to be off Wall Street for now: Many analysts are bullish, biotech stocks are rising again, and more than a dozen initial and secondary public offerings are in registration. And last year, venture capitalists forked over \$700 million to fund 92 startups.

Those signs of health tend to mask an increasingly serious problem, however: overpopulation. The market has "sired a lot of offspring," says Vaughn M. Kailian, CEO of Cor Therapeutics Inc. in South San Francisco. "Now, it has to feed them." Industry leaders Genentech, Amgen, Chiron, and Biogen are in the black and can fund much of their own research and development. But profits are still a dream at most outfits. The rest of

the 200-odd public biotech companies are still trying to come up with the \$100 million-plus needed to launch a drug. In fact, analysts think that about half of those companies are within 12 months of running dry at the rate they're spending money. "There are way too many companies" for the capital available, asserts venture capitalist A. Grant Heidrich of Mayfield Fund in Menlo Park, Calif.

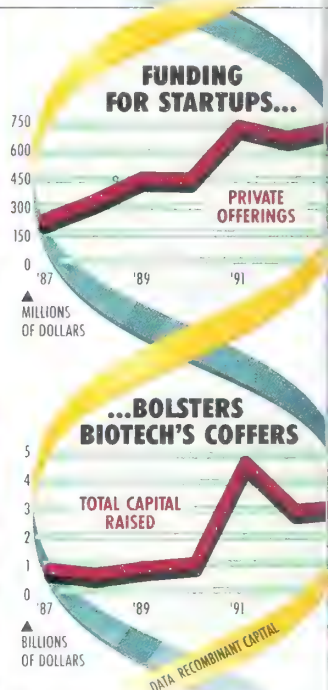


In the resulting free-for-all over capital, companies find it almost impossible to get funding at the terms they want, says Jeremy Curnock-Cook, who runs the \$210 million London-based Biotechnology Investments Ltd. fund. Ask Lisa A. Conte about that. In January, 1993, the CEO of Shaman Pharmaceuticals Inc. took her company public in a \$45 million offering at \$15 per share. But as the year wore on, Conte lost faith that she would be able to raise more money when she needed it. She became so convinced that 1994 would "separate the living from the dead" that she shored up Shaman's accounts with an \$18 million offering in December at \$8.50 a share. For effec-

tively watering down stock held by other investors, one New York fund manager now calls the company "Shame You Pharmaceuticals."

A stealthier version of the same proach is what Wall Street bankers call "creative financings." More than \$400 million of what the industry raised last year came from PIPE financings—"private investments in public entities," analysts say about 40 public companies privately placed stock last year—at a discount of up to 10% below the market price. "That's not creative," laughs one investment banker. "Sell stock at a premium—that's creative."

PRICE CONTROLS? Most industry executives prefer to blame Washington for the capital crunch. BIO, the biotech lobbying group, lambastes a proposal from the Clinton Administration's health-care plan for an advisory committee to eval-



uate the pricing of breakthrough drugs. BIO even blames the idea for recent cutbacks in AIDS research. "It's price controls. It's a disaster," fumes Biogen Inc. CEO James L. Vincent. Genentech CEO Kirk Raab, BIO's chairman, insists that the notion of a price-setting committee will discourage pension and mutual funds from investing in biotech. That, he adds, will force startups to seek financing from larger drug companies, including foreign ones, which, he says, could threaten the U.S.' edge in this key technology.

Trouble is, plenty of investors—and even some of Raab's peers—think he's off base. For one thing, Raab himself sold 60% of Genentech Inc. to Swiss

owned Roche Holdings Ltd. when he faced a cash crunch in 1990, a deal he calls a success. Beyond that, private insurers and the stock market, too, are already forcing biotech companies to prove the cost-effectiveness of their drugs. Cor, for instance, raised \$91 million last year largely because its premier drug, Integrilin, shows promise in preventing complications after heart surgery—including heart attacks. While CEO Taliani doesn't want a price committee either, he points out that "the market is rationing health-care dollars at the research stage."

"WHINING." Others, such as Edward E. Penhoet, chief executive of Chiron Corp., see health reform as an opportunity. "We make \$75 million a year on a [blood screening] test for Hepatitis C," he says. "That's so far saved society about \$500 million and kept 1 million people worldwide from getting the disease." Instead of "whining" about reform, Penhoet thinks the industry should reassure investors by talking up its potential products. Besides, he says, "It's unrealistic to assume...that [every] biotech company has a God-given right to capital."

Even a shortage of funds won't kill off very many biotech babies. Their valuable technology has enabled dozens of them to merge, sell out, or switch strategies, leaving less than a half dozen total failures in biotech's 15-year history. Still, Steven Burrill, an analyst at Ernst & Young, thinks many companies should clamor up to avoid the quest for investment capital that can divert them from their research goals. He cites a Jan. 10 deal between Chiron and Cephalon Inc. The partners will pursue neurological drugs for which Chiron has patents and manufacturing capacity and Cephalon has proprietary technology and clinical expertise. Chiron invested \$15 million in equity in Cephalon, and the partners will share development costs and profits. Small fry can also link up with large drugmakers, which, Burrill notes, increasingly need cutting-edge technology and, in return, can provide capital, manufacturing, and marketing muscle.

Paring down or pairing up—those seem to be the two best options now at biotech money is being spread thinner. And that may be true for the foreseeable future. Venture capitalists are still creating startups at a furious pace. Competition for funds will heat up even more, predicts Mark Edward, president of financial consulting firm Recomitant Capital. Unless the market binges on biotech once again, companies could continue to face unfavorable financing terms. By those measures, Edward adds, the industry's going to get weaker before it gets stronger."

by Joan O'C. Hamilton in San Francisco

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Developments to Watch

EDITED BY OTIS PORT

A SMARTER, CLEANER WAY TO BURN GAS



Semiconductor technology may turn up the heat in the battle between the natural-gas and electric industries. The Gas Research Institute in Chicago, which is funded by gas utilities, is underwriting a project at the University of Illinois to develop "smart" gas burners that are more efficient and less polluting—plus, cheap to manufacture.

Ishwar Puri, an assistant professor of mechanical engineering on the university's Chicago campus, came up with the radical notion of using giant, 2-inch-square chips to process gas in kitchen ranges and industrial furnaces. No, the chips won't digitize the gas. But they will have little grooves that funnel fuel to the flame, and the sides of the grooves will carry electrical charges. Pulsing the charges will create tiny vortexes in the gas-and-air mixture. The improved mixture, Puri says, should yield hotter flames without producing more nitrous-oxide pollutants, as usually happens at higher temperatures. Puri expects to have silicon prototypes by yearend.

TEACHING IMMUNE CELLS TO CURE CANCER

In theory, a beguiling strategy for fighting cancer is to enlist the body's immune system to kill tumors. That would avoid the terrible side effects and limited potency of drugs and radiation treatments. But so far, it hasn't worked very well.

Now comes tantalizing evidence, reported in the Jan. 28 issue of *Science*, that a takeoff on this approach seems to work—at least in rats. A team of scientists at Case Western Reserve University and the Eastern Institute of Hepatobiliary Surgery in Shanghai reasoned that the immune system must not be recognizing the tumor cells. So they decided to introduce the immune system to its target. They isolated cells that rally the body to fight an intruder and fused them with liver-cancer cells. The resulting cells were no longer carcinogenic—but because they retained some aspects of the tumor, they were particularly effective at priming the immune system to fight the cancer. In fact, the fused cells cured rats with liver cancer—and vaccinated healthy rats against the disease.

NOW, HIGH-TECH DATA CAN CRUISE ON LOW-TECH COPPER WIRE

One hang-up clouding the future of the proposed Information Superhighway is the cost of running connections into American homes. It will take around \$1,500 per residence to replace copper telephone wires with the optic-fiber links needed to handle the huge volume of data that will flow over the network. But that rewiring may not be necessary after all.

A breakthrough in compressing digital data, just unveiled

by Stevens Institute of Technology in Hoboken, N. J., boost the capacity of copper wires by 16 times, or enough to handle interactive-television signals. There are rival data-compression techniques, but what's unique about this one is that signals can travel more than two miles through "noisy" copper wires. With other methods, the signal becomes unintelligible within 100 yards. That's not enough to link many residences to a fiber trunk line. The new method's secret—a way of filtering out noise when decompressing the signal—was invented by Elliot L. Gruenberg, a retired engineer. He founded Digital Compression Technology LP and in 1992 moved into an "incubator" for startup companies at Stevens.

AN ON-LINE TIPSHEET FOR MORE EFFICIENT FACTORIES

An information highway tailored to helping manufacturers do it better, cheaper, faster moved closer to reality in late January, when the Defense Dept.'s Advanced Research Projects Agency awarded a \$9.8 million contract to Microelectronics & Computer Technology Corp. (MCC), a consortium based in Austin, Tex. MCC will develop the Agile Manufacturing Information Infrastructure (AMII) as part of an ARPA program launched in 1990, to bolster U. S. industry by helping companies adopt the latest manufacturing knowhow.

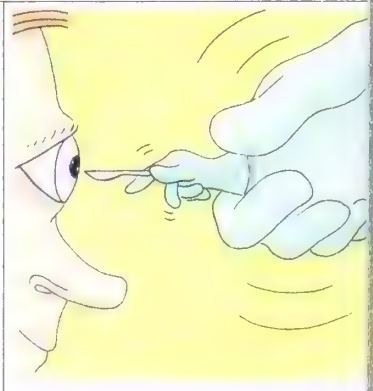
Small and midsize producers are the main focus of the ongoing ARPA program, called Manufacturing Automation & Design Engineering, or MADE. The first phase worked on standards to make it easier to exploit new technologies across company boundaries, in so-called concurrent engineering projects. The AMII network will facilitate more such "electronic commerce" including on-line strategic partnerships among suppliers and manufacturers. AMII's participants will also have links to the Manufacturing Technology Centers and Manufacturing Outreach Centers sponsored by the National Institute of Standards & Technology.

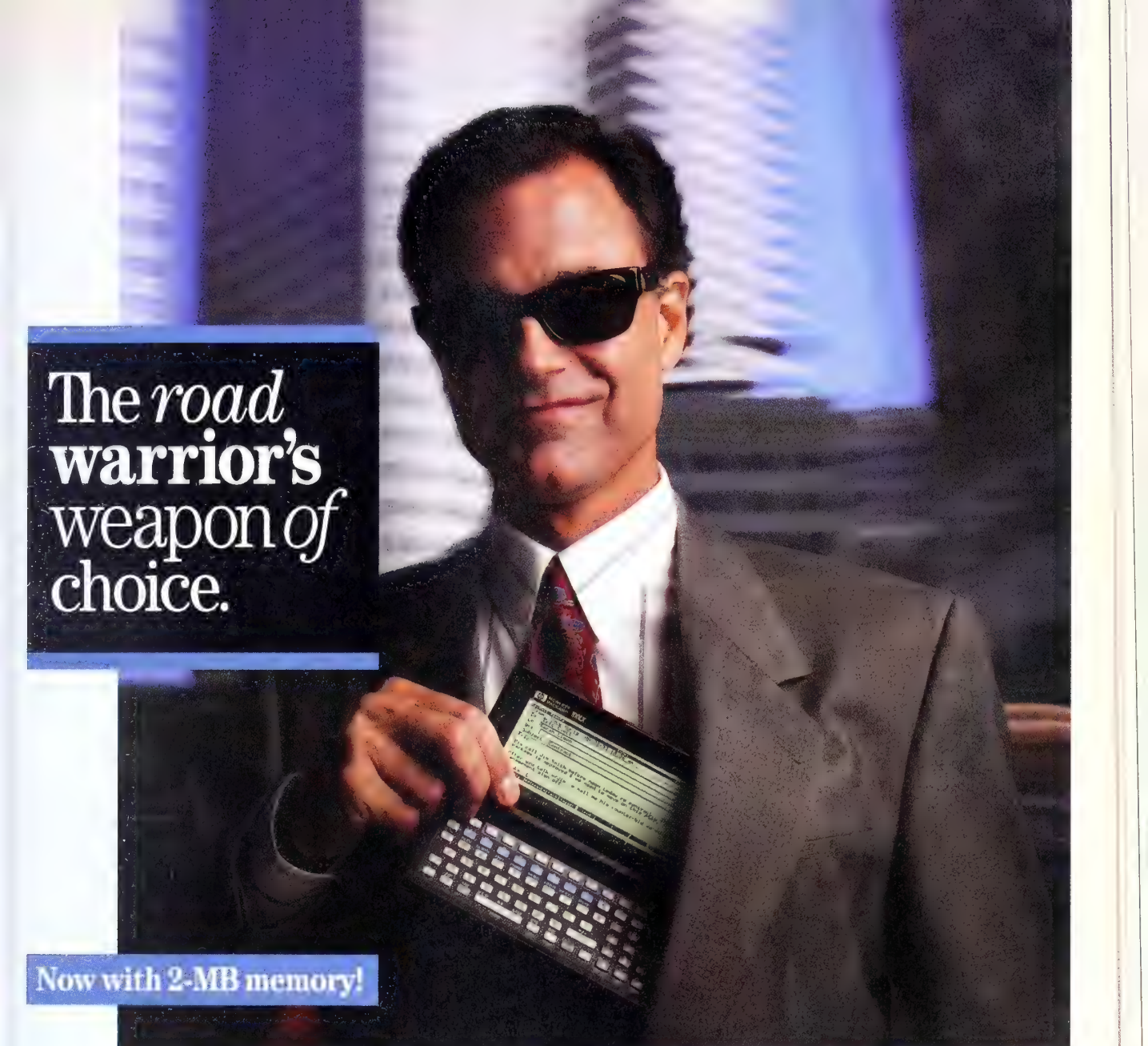
STEADIER MICROSURGERY WITH A JOYSTICK SCALPEL

Microsurgery demands almost superhuman dexterity. To perform delicate operations on the eye, for example, surgeons peer through microscopes while wielding tiny scalpels, and the slightest slip can lead to serious complications.

To reduce that risk, Dr. Steve Charles, a Memphis eye surgeon and founder of Micro-

Dexterity Systems Inc., has teamed up with Sandia National Laboratories to develop a robotic system that aims to take the wobble out of wielding a scalpel. Charles envisions a mechanical arm that reproduces a surgeon's movements, but on a vastly smaller scale. So if a surgeon holding a "joystick" scalpel moved it one centimeter, say, the robotic scalpel would track the movement—but for only one millimeter. Plus, the system would filter out inadvertent movements. Charles expects to have a product on the market within two years, to be priced around \$100,000.



A man in a dark suit, white shirt, and patterned tie, wearing dark sunglasses, is smiling and holding a small HP 100LX palmtop PC. The device has a small screen displaying a form and a full QWERTY keyboard. The background is a blurred office setting with a window showing a city skyline.

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DOES THE HOUSE OF FIGGIE NEED CLEANING?

The conglomerate is pressed for cash, and critics blame Harry Figgie

Making fire-fighting equipment has always been one of Figgie International's core businesses. But lately, it seems that Harry E. Figgie Jr., founder and chief executive of the publicly owned but family-dominated conglomerate, has all he can do to snuff out the figurative blazes flaring up around him at the company's Willoughby (Ohio) headquarters.

Most immediately, Figgie International Inc. faces what company Director Dale S. Coenen terms "a liquidity squeeze, pure and simple." After three years of declining earnings, the company is expected shortly to report what it calls "a significant loss" in the fourth quarter and a loss for the full year. The company acknowledges that some trade creditors are demanding cash on delivery. "We're paying those who need to be paid to be sure there is no disruption," says Joseph J. Skadra, controller and senior vice-president for finance, who claims there hasn't been one yet. One former official notes that "many division presidents are spending an inordinate amount of time trying to procure equipment and calm vendors down."

FAMILY MATTERS. Coenen insists that the cash crunch is "a temporary situation" and the worst is probably over. But when asked whether the company will make its debt payments this year, Skadra responds: "I do not have a forecast that says whether we'll meet them or not meet them." That clearly will depend on Figgie's banks, with which it is negotiating a new agreement. Skadra says they've already waived some covenants. The company is encouraged by the talks and says it's not in default on any of its \$455 million in debt. Few believe that Harry Figgie, author of the 1992 best-seller *Bankruptcy 1995*, which forecasts a national financial collapse, will let that happen to his company.

Figgie also is battling a lawsuit filed last fall by Charles B. Miner, a Figgie group vice-president who was dismissed in 1992. The suit alleges that Harry Figgie and his son, Vice-Chairman Dr. Harry E. Figgie III, have run the company

as a private fiefdom. Among other charges, the suit claims the Figgies have diverted company assets for their personal use, inflated the company's financial results, and engaged in self-dealing with family-owned Clark-Reliance Corp., a maker of valves and controls that Harry bought before he started Figgie International. It charges that the Figgies engaged in "improper transactions" that "benefited Clark at Figgie International's expense." Former Figgie executives corroborate some of these allegations.

Figgie International declines comment on the suit's specific allegations but claims it has no merit and is seeking to have it dismissed.

Few would dispute that Figgie International has always been Harry's baby. Founded in 1963, when he acquired "Auto-

matic" Sprinkler Corp. of America in leveraged buyout, Figgie, unlike many diversified companies, emerged from the tumultuous 1980s more or less intact.

Solidifying his control by creating two classes of stock, one with supervoting rights, Figgie reigned supreme over more than two dozen divisions that made everything from aerial fire-fighting platforms and Rawlings sporting goods to steel scaffolding and packaging equipment. Even Figgie's critics acknowledge that he is brilliant and personable.

"TIRE 'EM, FIRE 'EM." Figgie's management style, though, can be brutal, say his detractors. Although he served as an infantryman in General George S. Patton's Army during World War II, Figgie rejects the tough-guy label, saying he's more fair than tough. He pays his mar-



**FIGGIE SAYS MIDWEST
FLOODS, BAD CONTRACTS,
AND WEAK MARKETS
CAUSED THE CRISIS**

gers well, sets goals in what the company called "hard core" sessions, and dumps those who don't deliver. "The phrase around the building got to be fire 'em, tire 'em, and fire 'em," says one former official. "It's basically a house of fear," says Donald L. Bottom, a former group vice-president who left at the end of 1990.

In the 1980s, Figgie's management style seemed to be a formula for success. Yet critics claim it has become a liability and contributed to Figgie's troubles. Figgie concedes that since 1989, "we haven't done very well for the shareholders." In the first nine months of 1993, the company netted \$1.2 million, after accounting changes, on sales of \$847 million. It lost \$4.7 million before changes. But he blames a host of special factors: floods that inundated three Midwestern plants, causing at least \$15 million in operating losses; ill-conceived contracts that resulted in poor quality at Fred Perry sportswear; and extra spending at a defense division to upgrade its processes and controls. He also cites weak markets, the economy's stop-and-starts, and the company's big campaign to overhaul its manufacturing operations through heavy investment in new equipment. That revamping, overseen by son Harry, resulted in 47 plant closings and is supposed to bring huge benefits. Figgie insists an upturn will begin in the third quarter. "I see the problems now as temporary problems."

A suit claims the Figgies misused company resources and overstated assets by more than \$100 million

Temporary or not, Figgie was not around much when they surfaced last year. In an interview with BUSINESS WEEK, Figgie acknowledged that for 15 months through Oct. 11, 1993, he was out ill [suffering from bacterial pneumonia, others say] and remained out of touch with the board. The company admits this was never disclosed to shareholders. A Figgie spokesman says shareholder disclosure of the illness wasn't required because Figgie was in control throughout the period and in regular contact with the vice-chairman. He now says he is in good health.

SMALL POTATOES. Other detractors depict Figgie as a man who has not always been able to separate his publicly owned company from his personal interests. According to the lawsuit, Clark-Reliance has fed off Figgie International's business. For instance, Figgie International provided staff services to Clark. "Were they [Figgie] reimbursed? Sometimes yes, sometimes no. Most of the time, no," says T.S. Porter, former manager of real estate for Figgie. Another former manager

says: "We never understood how [Figgie's auditors were] able to certify the books with that relationship as it was." Harry Figgie responds that Figgie International kept an arms-length relationship with Clark, which served as a technology lab for Figgie.

The suit also alleges that Figgie International provided landscapers and gardeners to the Figgies. Perhaps the suit's most serious charge is that the company overstated its balance sheet by more than \$100 million. Among the items that were allegedly inflated were the value of loans made by a finance subsidiary, property valuations, and about \$36 million in inventories. Former executives say that inventory sometimes was not written down because it would hurt their budgets. Arthur Andersen & Co., the company's auditors, declined to comment.

So far, though, Harry Figgie and his board haven't seen any reason to make drastic changes. Not long after the shareholder suit was filed, the company named Figgie's 27-year-old son, Matthew, as director of mergers and acquisitions. In July, the board appointed Harry's wife, Nancy, as vice-president for facilities planning. Harry E. Figgie III was appointed vice-chairman in 1990. Figgie Jr. defends all three, including Matthew—"a tremendous financial analyst"—and his wife, who plans to work with architects on the design of a new headquarters. Yet Director Coenen admits that while he voted for Nancy's appointment and thinks she deserves it, "it certainly opens [us] up for criticism."

Relatives on the payroll is small potatoes compared with Figgie's cash-flow woes. The company has hired two investment bankers to help sell or spin off operations that will let Figgie raise \$150 million to \$200 million. Outsiders agree that with its diverse units, Figgie has plenty to sell. The money would be used to pay down debt and placate its bank group, led by Bank of Boston. "My assessment is, the banks are willing to lend but at a higher cost," says Juanita J. Mayr, an analyst at Moody's Investors Service. Bank of Boston officials declined to comment.

Meanwhile, Harry Figgie says he has every intention of staying on. "The last thing I'd want to do is leave the company when it's had tough times," says Figgie. Coenen agrees it's legitimate to ask if the company is being run as it should be. But, he says, "Harry built a company from \$20 million to what it is [today]. You don't just kick out talent right away. I would not support any strong movement away from the present management situation." But if it's just a rough spot that Figgie has hit, as Coenen maintains, it's going to take more than a small amount of smoothing.

By Zachary Schiller in Cleveland

THE CLOUD OVER FIGGIE

CASH CRUNCH The company is experiencing a liquidity squeeze and is seeking to negotiate new bank credit lines. "Cash is tight," says Chairman Figgie.

FAMILY TIES Three Figgies are officers: Harry E. Figgie Jr. is CEO; Harry III is vice-chairman; Figgie Jr.'s wife, Nancy, is vice-president in charge of facilities planning. His 27-year-old son Matthew is director of mergers and acquisitions.

FAMILY DEALS Former executives say Figgie International personnel and equipment were extensively used by Clark-Reliance, a company owned by the Figgie family, often without clear accounting. Company says dealings were at arms-length.

FAMILY FINAGLING? The Figgies are accused in a derivative lawsuit of using corporate resources for personal benefit, including gardeners and landscapers, and laborers to construct a house. Company says suit is without merit.

FISCAL DECEPTION? The derivative suit contends that the company's financial statements are misstated by more than \$100 million, reflecting overvalued inventories and real estate.

HEALTH DISCLOSURE Though Chairman Figgie says he was "out of touch with the board for 15 months" because of health problems, the company did not officially disclose his medical condition. Company says Figgie remained in control throughout.

DATA: COURT AND COMPANY DOCUMENTS, BUSINESS WEEK

OPTIONS DON'T LOOK SO SCARY ANYMORE

A crop of new products is drawing the public back into the market

After small-time options players were scalped in the 1987 crash, Chicago Board Options Exchange Vice-Chairman William C. Floersch might well have been a candidate for scalping himself. Options pros such as Floersch have always insisted that options are a smart choice for a wide range of investors—an argument that has met with a hostile reaction in recent years. But when Floersch went for a haircut the other day, he unexpectedly found himself explaining options to the barber's cousin, who was helping out in the shop. "People are much more receptive," marvels Floersch. "The options business is back."

Fueled by a fresh onslaught of investors, small and large alike, options trading is indeed on the rise. In 1993, options volume rose 15% over 1992, reaching levels not seen since the 1980s (chart). And although volume is still far below 1987 levels, the momentum continues to build. An effort to revive the business after the crash has yielded a huge crop of fresh products, including newly listed options on hundreds of companies.

WIDE SWINGS. With technology stocks growing stronger again and mergers on the rise, investor interest in options has returned. Many are buying put options—the right to sell a stock at a specific price—to protect against losses in their high-flying portfolios. Bullish traders are buying calls—the right to buy a stock at a specific price—in the hope that stocks will continue surging. A 10% rise in the price of the stock over a short period can send the call option rocketing 100% or more. For Chicagoan Sam A. Gambacorta, who buttonholed Floersch at the barber shop, options allow short-term speculation "without putting up a whole lot of money," he says.

Even though the overall market has not been that volatile, stocks in the news have gyrated. And that has been a boon to options trading. For instance, volume in Motorola Inc. options soared

to 2.3 million contracts, from 605,000 the year before. Merck & Co.'s volume climbed to 2.3 million, from 1.6 million, and Intel Corp.'s rose more than fourfold, to 3.8 million. Options on Paramount Communications Inc. hit 3.3 million, up from just 200,000 in 1992.

But speculation still hasn't reached the frothy levels of 1987. Unlike options on individual stocks, index option trading

much as 40% of volume, up from 10 six years ago. About 20% of customer orders originate outside the U.S., including those from booming offshore funds.

New products have helped draw many customers. In the midst of the industry's slump, the Securities & Exchange Commission changed its rules to make hundreds of smaller stocks eligible for options trading. After the crash, the number of option stocks more than doubled, to 1,294, at the end of 1993, and the rapid expansion continues.

The industry is also becoming more creative. The American Stock Exchange reports strong demand for its year-old "SPDRS" product that, in effect, lets investors trade shares in the Standard & Poor's 500-stock index. Lately, the exchanges have rolled out options on new indexes, country funds, and American depositary receipts from foreign compa-

nies. The biggest success has been long-term stock options known as LEAPS. Since the 1990 introduction, LEAPS have grown to more than 4% of equity options volume. LEAPS are available on 150 of the most widely traded stocks.

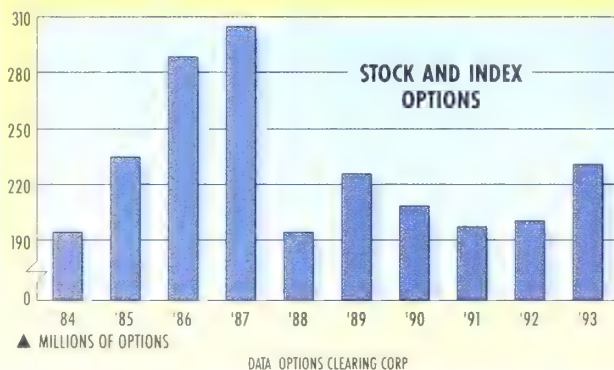
LAST HURRAH? All this activity has the exchanges feeling flush. In the past year, membership prices soared 32% for a CBOE seat, to \$331,100, and 78% for an American Stock Exchange options seat, to \$142,000. Brokerage firms such as Merrill Lynch & Co. that backed off from retail options after the crash now

push the business again, despite stiff margin requirements. But firms also complain that the exchanges list too many inactive products, making it impossible to keep track of every new option. And the recent burst of creativity may be petering out. As Nobel laureate Milton Miller, a University of Chicago finance professor, puts it: "There's a limited amount of product innovation they can do, and they've done it."

For now, though, the new products still have room to grow. Industry hedgies, meantime, want to make sure today's customers won't be exposed to runaway losses as in 1987. After his haircut, Floersch urged investor Gambacorta to try out a conservative spread strategy to reduce risk by buying puts and calls simultaneously. Gambacorta, who took the advice, is realistic about the options game: "You need to have some tolerance for being able to take a loss," he says. And, the industry hopes, keep coming back for more.

By Greg Burns in Chicago

OPTIONS TRADING IS CREEPING BACK UP



has posted only modest gains, with volume in the CBOE's benchmark S&P 100 growing just 2.6% in 1993. Interestingly, put volume outpaced call volume by nearly 10% as investors hedged against a possible market correction. Market watchers note that high put volume is a sign of small-investor bearishness—which contrarians view as bullish.

On the trading floors, market makers and specialists are noticing increasingly sophisticated options strategies as well as more large orders. One reason is stepped-up participation by big players. At the CBOE, the nation's largest options exchange, institutions account for as

Despite a fairly placid S&P, individual shares have gyrated—and that's manna to options traders

NICK KNIGHT: HIS SWAGGER CAN SWAY MARKETS

The Nomura economist's canny picks have a way of paying off

He calls his presentations "The Nick at Nite Show," playing on the resemblance between his name and the U.S. cable-TV network that screens classic reruns. But Nicholas Knight's showmanship wasn't the only reason why Nomura Securities Co.'s 3,000 salespeople were glued to closed-circuit video monitors around the world on Jan. 17. Since his last chat with the troops in July, Nomura's London-based global strategist had been roiling markets in Japan and Southeast Asia with well-timed calls. What would he favor now?

At a time when most U.S. analysts are worried about the Dow's record highs, Knight, 42, currently likes America. Why? Although many analysts think a modest U.S. rate hike is coming, Knight believes Federal Reserve Chairman Alan Greenspan might boost short-term interest rates as much as two percentage points in a "preemptive" bid to put down inflation expectations once and for all. That might cause a "shock wave" in U.S. markets. But over the long haul, it could also assure "the 3% world: 3% growth, 0%-to-3% inflation, 3% short rates, and the holiest of holy grails, long bonds closer to 3% than 6%." And that could be "extremely positive for bonds and equities."

NEVER AGAIN. Knight is no stranger to controversial predictions. But anyone who followed his headline-grabbing Jan. 5 recommendation on Asia (table) earned a pretty penny. Through the second half of 1993, Knight steadfastly recommended steering clear

of Tokyo in favor of booming Hong Kong and Southeast Asia. But Knight flipped on Jan. 5, terming those Asian markets overheated and urging clients to jump back into Japan. In a flash, Hong Kong tumbled 10% and Malaysia 10%, while Japan's Nikkei stock average climbed nearly 5%.

Many Knight customers—pension and mutual-fund managers on three continents—say this is no fluke. In these circles, Knight, a Cambridge University-trained economist, is starting to gain a reputation as a market-watcher in the same league as Morgan Stanley & Co.'s



KNIGHT'S BIG CALLS

SEPT. 16, 1992 In morning, issues strong buy on London. That evening, government pulls Britain out of European currency system and cuts rates. Stocks soar.

OCT. 1, 1993 Recommends shifting out of U.S. and Japan in favor of Hong Kong, Malaysia, Korea, Philippines. Although he misses a 5% rise for the Dow Jones Industrials, Asian markets soar to record highs.

JAN. 5, 1994 Terming East Asian bourses overheated, suggests investors move back into Japan. In three days, Hong Kong plunges 10%, while Tokyo surges 4%.

JAN. 12, 1994 Urges investors to buy stocks, bonds in U.S., Britain. Says U.S. rate hike will hold inflation at bay.

JAN. 24, 1994 Nikkei plunges 4.9%, to 18,353, after political reforms are defeated. "Don't panic," Knight says. Predicts economy will recover and Nikkei will hit 24,000.

DATA: NOMURA SECURITIES CO., BUSINESS WEEK

Barton M. Biggs. One New York manager, for example, recalls a phone call from Knight on the morning of Sept. 16, 1992, advising him to buy British stocks despite the sorry state of the London market. Knight told the manager: "Buy everything you can find." That evening, Britain dropped out of

Europe's Exchange Rate Mechanism and slashed interest rates. Stocks soared.

Knight also predicted last February that the Nikkei would rocket from 16,850 to above 21,000. It did, gaining nearly 25% over the next three months. Then, in May, he announced he was bearish on Japanese equities. In the ensuing month, the Nikkei dropped more than 8%. Knight remained so downbeat through the fall that displeased Japanese Finance Ministry officials summoned the head of Nomura's Tokyo research arm to their headquarters. But Nomura didn't muzzle Knight, who did not switch signals on Tokyo until Southeast Asia's record-breaking year-end rally convinced him that Japan offered more value. Even the Nikkei's 4.9%

plunge on Jan. 24 has failed to dampen Knight's sanguine outlook for Japan. Its current political turmoil will not block more interest-rate cuts or government spending programs to boost the economy, he predicts. "The market is going to move higher, through 24,000."

Knight's beginnings in the market were hardly auspicious. A native of the unfashionable outer-London Essex suburbs, Knight was an analyst at James Capel & Co. when he turned bullish on equities just in time for the October 1987 crash. "The pressure of the crowd turned me into a bull at the top," he says. "Never again." Chastened, Knight now polls money managers "to get a vision of where the herd is going." He then tries to scope out which economic signals the herd may have overlooked.

Knight's style began to blossom when he joined Nomura in 1989. Today, he lives up his shows with props, charts, a palmtop computer, and lots of talk. Not everyone is a Knight fan. Inside Nomura, some grumble that Knight bases his views on shifting investor sentiments. Shrugs Knight: "The strategist is never universally popular."

Knight has no shortage of cheeky one-liners for 1994. The U.S.? "A bull market in disguise." Europe? "If you're long France and short the U.K., you're going to get murdered." Asia? "If you're long Hong Kong and short Japan, you're dead." From this Nick at Nite, you get bold forecasts. So far, many have been money-makers.

By Julia Flynn in London, with Larry Holyoke in Tokyo and William Glasgall in New York

THE \$1 BILLION KISS-OFF

Will Lehman be able to make it on its own?

It was a marriage made in hell, and American Express Co. and Lehman Brothers Inc. are ecstatic to be filing for divorce. For nine years, the two companies suffered through an excruciating partnership of convenience, marred by Machiavellian infighting and clashing corporate cultures. Worst of all, AmEx paid a huge price for its excursion on Wall Street. Since 1990 alone, it shelled out \$2 billion in capital infusions to Lehman and Shearson. Add an additional \$1.1 billion in losses AmEx had to absorb from the two securities firms, not to mention foregone earnings. "The whole thing was a disaster," says Perrin Long, research director at First of Michigan.

With the Jan. 24 announcement that it's spinning off Lehman, AmEx will soon be free to focus on its credit-card and financial-planning businesses. And Lehman will find out if it can flourish as

a public company. As AmEx CEO Harvey Golub told analysts after the announcement: "This puppy is on its own now."

The big catch is, AmEx has to pump \$1.09 billion into Lehman before it distributes Lehman's stock to shareholders as a special dividend. That's what the rating agencies insist Lehman needs to maintain its single-A rating, which is so critical to success in investment banking.

Unfortunately, Golub didn't have much choice but to kiss \$1 billion goodbye and give Lehman away to AmEx shareholders. An initial public offering would be a tough sell, thanks to the brokerage's string of losses. "Historically, the news out of Shearson Lehman has not been stellar," says Richard Schmidt, managing director of Standard & Poors Corp. And without the extra capital to make it competitive, Lehman may have floundered, saddling AmEx shareholders with a turkey.

CRUSADE. The big winners are Lehman and, if the plan is successful, its shareholders. Since 1990, Lehman has been on a crusade to recapitalize itself. It successfully reignited its entrepreneurial culture and rebuilt itself. Lehman even

shed more than \$9 billion in illiquid assets through write-downs and reserves.

The proof of Lehman's rebirth: By 1991, it ranked No. 3 in total debt and equity underwritings and kept the spot for the next two years. One analyst expects Lehman stock to trade at 14 to 15 when it is spun off in late May.



LEHMAN CEO DICK FULD: "WHEN WE GO PUBLIC, PEOPLE WILL BE ABLE TO SEE WHAT WE HAVE CREATED"

June. "This has been a long process of making investments, so at the end of the day, when we go public, people will be able to see what we have created," says Lehman CEO Richard S. Fuld. "With this kind of alimony payment, he'll be off to a darned good start."

By Leah Nathans Spiro in New York

CREDIT MARKETS

BRAZILIAN CRAPSHOOT?

Investors may be ignoring risks in the state of Minas Gerais

In Brazil, they call it *jeito*. Roughly, it means "cleverness." On Jan. 21, Banque Indosuez and J.P. Morgan Securities Inc. launched a \$200 million Eurobond offering for Brazil's state of Minas Gerais that was in the best tradition of Brazilian financial *jeito*. Even though Brazil and Minas Gerais, an industrialized southeastern province, are still technically in default on billions owed to Western banks, investment bankers seized on emerging-market mania to sell the unrated paper to institutional and individual investors as a public offering in Europe and a private placement in the U.S.

While the issue may not be the diciest emerging-market Eurobond deal ever to cross the Rio Grande, some experts say investors may be overlooking its risks.

Brazil still suffers from political chaos and a 2,600% annual inflation rate. A leftist victory in the Nov. 15 presidential election, which is a distinct possibility, could derail free-market reforms. An agreement on rescheduling Western bank loans has still not been implemented. And the central bank could conceivably seize foreign-exchange reserves, blocking other government entities from meeting their foreign obligations.

Peter L. Clark, vice-president of J.P. Morgan Securities, acknowledges that investing in developing-country debt, including the Minas issue, "is a risky business.... People need to do their homework." But he contends that Brazil "is still relatively cheap," and that "they're getting an economic plan together."

Significantly, Minas Gerais beat Brazil itself back into the public-debt markets, doing so even before Brazil could complete the rescheduling of its \$34 billion

in bank debt, which is expected by April 15, as called for in the Bush Administration's Brady Plan.

Moreover, the transaction represents the first time that a province of a Latin American country has raised long-term money in the Euromarkets since the debt crisis of the 1980s, although several state-owned companies have already tapped the market. With this deal, says Alfredo M. Viegas, vice-president at Safra Brothers Inc., Brazil is "a little sneakily coming back" into the market.

LAND OF ADVENTURE. The offering consists of two equal portions, one bearing a rate of 7% for five years and the other 8% for six years. As a sweetener, Minas Gerais tacked on three-year warrants giving investors the right to buy preferred shares in CEMIG, an 84% state-owned utility. Based on trading in the warrants, the five- and six-year bonds are yielding about 9.5% and 9.7% respectively.

Asserting that Minas Gerais is one of Brazil's best-managed states, and CEMIG one of its best utilities, says Claude Marion of Banque Indosuez: "They can go to the market with better credit than the state of São Paulo or even the republic."

That said, investors could still be in for a roller-coaster ride.

By Phillip L. Zweig in New York

Minas Gerais is the first Latin province to issue bonds in the Euromarkets since the debt crisis of the '80s

BY GENE G. MARCIAL

THIS PLAYER ISN'T AFRAID OF A 4000 DOW

With the Dow in striking distance of the 4000 zone, plenty of investors have become increasingly acrophobic. Investment adviser F. Van Kasper isn't one of them, though. He thinks the market still abounds with attractive values and is scooping up stocks at current levels.

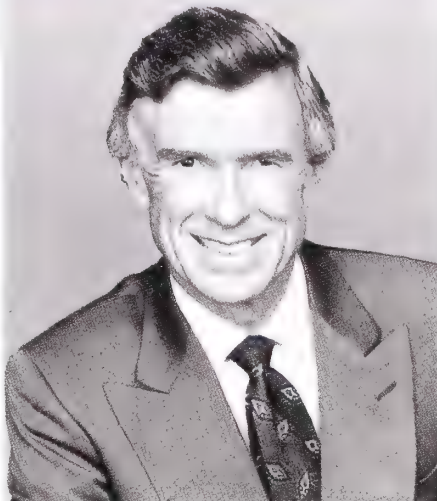
"One's strategy should be to buy value on the cheap any time it's available, and there are plenty to buy even now—particularly among the small-cap to mid-cap emerging-growth stocks," says the chairman and president of Van Kasper & Co., a San Francisco-based investment firm. "Sure, we may see an interim market pullback, but the major trend is still up," he argues. The reawakened economy, a leaner and more productive Corporate America, and the nation's strong competitive position worldwide will continue to propel the market, he says.

OP PICKS. Van Kasper's picks last year gained 16.6%, vs. 7.1% for the S&P 500 index. Most of his choices for 1994 are bets on technology and finance—the two areas he believes will be hot in the 1990s. In technology, he likes Alpha-Beta, a biotech company developing therapeutic carbohydrates. It hit 35 a share in mid-October but has come down to 28. Alpha's most advanced product, Betafectin, has completed clinical tests to reduce infections in high-risk post-op patients. Alpha-Beta is also developing food additives that would help lower serum cholesterol. Although Van Kasper doesn't see profits until 1996, he says the company is not to bet on big.

Next is Rainbow Technologies, a leading maker of software-protection devices. Its CD-ROM VendorSystem is used by major computer companies including Apple, Adobe, Aldus, and Ingram. Trading as high as 30 in late August, the stock is now at 19, which Van Kasper says is a "compelling buying opportunity." He sees earnings rising from \$1.12 a share in 1993 to \$1.35 in 1994 and to \$1.65 in 1995.

Van Kasper says his financial stock picks—First American Financial and Vallicorp Holdings—have niche markets that are growing fast.

First American, the nation's second-



VAN KASPER: THE TREND IS "STILL UP"

largest title insurer, has been on the rise since summer—from 26 in July to 36 on Jan. 26. Its title insurance business, says Van Kasper, is rebounding, along with its other operations, including a small bank. He sees earnings of \$5.50 in 1994 and \$6 in 1995, up from 1993's \$5.37. Net in 1992 was \$4.55.

Vallicorp is the largest independent bank in California's San Joaquin Valley, with assets of \$800 million. Earnings, expected to hit a record \$1.15 in 1993, should climb to \$1.35 this year and \$1.50 next year, says Van Kasper. "That, plus a return on equity of nearly 14% and strong capital and reserve ratios makes Vallicorp an attractive buy."

SWIMMING WITH THE SALMON

Seafood lovers or not, some investment pros have been bagging shares of Marine Harvest International, particularly after they fell to 6½ from 12 last October. Marine Harvest is a world leader in aquaculture—the breeding, farming and harvesting of seafood. "Harvest is a way to participate in the young and rapidly growing aquaculture industry," says H. Lloyd Kanev, an analyst at Smith Barney Shearson, who has upgraded his rating on the stock to a buy.

The stock's current price, says Kanev, reflects little, if any, of the potential growth of the aquaculture industry. Marine's farming of Atlantic salmon is located in Scotland and Chile; the shrimp operations are based in Ecuador. In 1993, Marine shipped some 15,500 metric tons of salmon, or 5.7%

of the world's salmon supply. Its major markets: Japan, the U.S., and Europe. Kanev cautions that because of the difficulty in accurately forecasting salmon prices, his estimate of 40¢ a share in 1994 and 75¢ in 1995 could be off the mark a bit, but the trend is definitely up. Worldwide consumption of farmed salmon is growing at 35% a year, and demand for Western White shrimp is increasing at a 24% annual rate.

Hanson PLC owns a 27% stake, and Hanson Vice-Chairman David Clarke holds 8.4%. Management owns 14%.

A PARENT UNTIES THE APRON STRINGS

For a company in the movie projection and cable-television business, ARC International is hardly in the spotlight. But it may capture notice on Wall Street before long as a value play. Currently at 3½ on the American Stock Exchange, Toronto-based ARC is a classic example of a company "whose pieces are worth more than what its stock is selling for," says one money manager.

Analyst Bill Bloch at M.H. Myerson agrees. "ARC's breakup value based on estimated 1993 earnings estimates comes to 6 a share," figures Bloch, who believes the company made some money for the first time in 1993—about 4¢ a share. He sees total earnings of 22¢ in 1994 on projected sales of \$75 million.

The company is planning to spin off to the public within weeks two of its three divisions: Cabletel Communications, a leading full-service distributor of equipment for cable-TV transmission, which accounts for 27% of operating profits and 42% of revenues, and Ballantyne, a leading maker of long-range spotlights typically used in concerts, auditoriums, and live performances at theme parks. The Ballantyne unit generates 53% of ARC's operating earnings and 34% of revenues. ARC is expected to spin off 40% of each division, says one insider.

As a stand-alone company, Cabletel will probably be priced at \$10 million to \$12 million, says this insider. Ballantyne is expected to be given roughly the same value. These two divisions are worth a combined \$4 to \$5 a share in ARC stock, figures this pro. "The purpose behind the spin-offs is to give these two divisions an opportunity to grow, partly through acquisitions," says ARC President and CEO Arnold Tenney.

ON-RAMPS TO THE INFO SUPERHIGHWAY

CompuServe and its rivals are seeing bumper-to-bumper traffic

Who's leading the charge to create a world of interactive information and entertainment services—the so-called Information Superhighway? Time Warner? Bell Atlantic? Tele-Communications Inc.? These are certainly the companies grabbing the headlines with their megadeals and technology demos. But unless you happen to live in Orlando, Omaha, or a few other spots where cable and phone companies will soon conduct trials, the Information Superhighway is still just a dotted line on the map.

On the other hand, if you're itching for such interactive services as home shopping, banking, and electronic mail—and can wait a few years for movies on demand—relief is just a modem away.

Indeed, all the hype about the Information Superhighway is having an unanticipated result: On-line personal computer services such as Prodigy, America Online, and CompuServe are enjoying a new burst of popularity. For millions of consumers, these services are, if not the Information Superhighway, important secondary roads. And if these services can upgrade quickly enough with higher speeds, graphics, and sound, they may wind up as major arteries. "The on-line services are going to be the ones that lead us to the interactive world," says Joshua M. Harris, president of New York-based researcher Jupiter Communications Co.

At Prodigy, the superhighway given the IBM-Sears joint venture a new life. As it fumbled with

ent formulas—trying to wring revenues out of advertising and transaction fees—the White Plains (N.Y.) company has been racking up operating losses estimated at \$40 million annually. But now it has trimmed more than 25% of its staff, rearranged its pricing structure, started an aggressive, live TV-ad campaign, and begun experimenting with new media (page 109). It also gave its klunky graphics a face-lift with a version for Microsoft Corp.'s Windows software that links full-color photos to its top news stories and some of its shopping services to provide the look of an electronic magazine. The result? An estimated 8.3% increase in paying members in 1993—putting it just behind CompuServe (table). Prodigy says it

will turn profitable later this year. Prodigy's rivals are also enjoying a rush of new members. According to Jupiter's Harris, the number of subscribers to on-line services jumped more than 28% in 1993 and will grow more than 30% this year (chart). Now, only 4 million of the 31 million home-PC owners belong to a service. But the proportion should rise as more and more PCs—equipped with modems and software to go online—enter the average home. And improvements in hardware and software help the PC evolve into more of a mainstream consumer-electronics product. Harris predicts that it will become the preferred gateway to the Information Superhighway, not the TV connected to a high-tech cable converter box.

NET GAINS. Meanwhile, CompuServe, Prodigy, and America Online are busy figuring out ways to use high-speed cable-TV lines to bring more and better services to PCs. With cable, up to 500,000 bits per second can be funneled into a PC, vs. the current 14,400 available via today's fastest modems. At those speeds, on-line services will be able to send video clips along with photos and text. And since such setups would leave telephone lines free, home PCs could be left on day, programmed to beep when e-mail or an important news story comes across.

"We're very excited about it," says Barry Berkov, executive vice-president of CompuServe, a Columbus (Ohio) division of H&R Block Inc. One hurdle: Such setups require another new and pricey modem.

Another hot growth area for the on-line services may be connecting ordinary consumers to the Internet, a vast network of networks where millions meet in cyberspace. All the services are trying to create Internet links. But Delphi Information Systems Inc. (recently named Delphi Internet Services Corp.) is furthest along. For \$23 a month, subscribers get 20 hours of access to the Internet. P. Russell Williams, a Delphi vice-president, says the service's membership growth rate is close to 200% per year. And with the recent purchase of De-



GRAPHIC BY ROB COOLE/RW

by media mogul Rupert Murdoch's News Corp., Williams predicts that the service could grow even faster. "Now that we have the backing of News Corp., we have what it takes to make it a great on-line service." Still, with only 10,000 members, Delphi has a way to go before it threatens CompuServe or Prodigy.

But today's top on-line services may be tomorrow's. As the technology comes more widely understood and hardware prices drop, competitors are multiplying. Apple, AT&T, and publishing giant Ziff-Davis have recently announced their own on-line services. Industry

watchers say Microsoft is thinking of jumping in, too. Established services like CompuServe "have a leg up" in technical expertise, says Harris. "But they don't have the content or the financial backing" to take on the Time Warner of the world. Meanwhile, America Online, which led the way in adding such features as on-line magazines and is the fastest-growing service, is showing signs of strain. Last year, rumors of an impending takeover by Microsoft co-founder Paul Allen sent AOL's stock soaring to a time high of 68%. But the rumors also unnerved some partners that have inked deals to provide content to the company, so fear that if Allen boosts his stake beyond his current 20%, there would be drastic changes in the system.

ULTIMATE ASSUMPTIONS? The Vienna (Va.) company doesn't need such distractions. Already, it is having trouble keeping up with the subscriber growth: During busy periods, members sometimes have difficulty logging on. The company says it is working to beef up its communications. Still, if any of the on-line services are worried about losing their way on the digital highway, it doesn't show. In fact, Prodigy views it, many companies approaching the digital highway and interactive service with the same faulty assumptions they had five years ago.

Harley Manning, the creative director behind Prodigy's new services and look, says that newcomers to the interactive world are relying on what he calls the "old of Dreams" approach: If you build it, they will come. "We've been there before, and we know what works and what doesn't," says Manning. That could put the on-line pioneers in the fast lane.

By Paul M. Eng in New York, with Mark Lewyn in Washington

PRODIGY'S QUEST FOR THE COUCH POTATO

While on-line services are enjoying a surge in demand, thanks to the Information Superhighway hype, they are also grappling with a troubling long-term problem: Their market is limited to the 13% of U.S. homes with a modem-equipped personal computer. But if they could reach every home with a TV, their opportunities would expand dramatically.

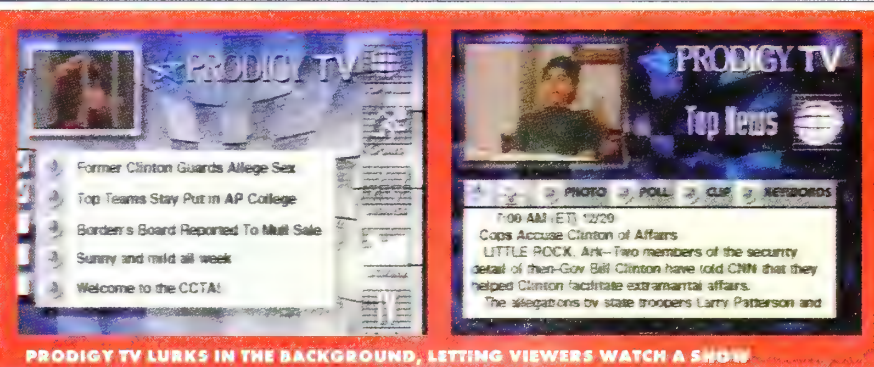
That's just what Prodigy Services Co. has in mind. Prodigy is developing a version of its service that can be viewed on an ordinary TV. While CompuServe and America Online also are looking at TV services, Prodigy is furthest along. Its service, called Prodigy TV, would be delivered over cable—which means it's up to your cable system to agree to carry it. So far, several cable operators, including Cox Enterprises Inc. and Media General Inc., have shown an interest. The service, now just a prototype, won't be tested until late this year, says Harley Manning, Prodigy's creative director. That's because it requires new souped-up cable converter boxes, which pack the power of a PC. In addition, Prodigy

Prodigy services, such as weather, sports, and shopping—all without missing a minute of *Roseanne*.

The prototype also includes links with TV shows to provide features not available on the PC. For example, while watching MTV, you could pull up the lyrics to a video or even order a compact disk or tape of the band by connecting with one of Prodigy's existing on-line merchants.

KEYBOARD, TOO? Manning says Prodigy TV, whose pricing hasn't been determined, could provide many of the interactive services promised by the Information Superhighway more easily and cheaply than other would-be providers. Prodigy can leverage its existing service, which has the required computing power and software. But some services, such as bulletin boards, may be missing from the TV version. That's because it would be hard to type a message without a keyboard. Although some new cable boxes will include keyboard plugs, Prodigy thinks few consumers would use them.

Will Prodigy TV fly? Some experts are skeptical. They say it may have a brief window of opportunity until the



PRODIGY TV LURKS IN THE BACKGROUND, LETTING VIEWERS WATCH A SHOW

TV can only run on cable systems that have a return signal from the home, a still rare feature.

Prodigy TV bears little resemblance to today's PC-based service, which is delivered over ordinary phone lines. The biggest difference is that you can watch regular TV shows when on-line. All the while, Prodigy lurks in the background. If a news story comes across the Prodigy network that is of interest to you, based on topics you've selected, Prodigy alerts you with an on-screen logo. A click on your remote reduces the TV show to a window on the screen, allowing you to read the story. You also can tap into other

more advanced interactive services promised by cable and phone companies themselves come on line. These services will allow consumers to tap into thousands of movies, TV shows, and educational videos. And without bulletin boards, Prodigy TV would lack one of the most popular features of today's services, notes Denise Caruso, an analyst with the new-media firm Friday Holdings. But Prodigy enjoys one advantage these newcomers lack: four years' experience running an interactive service. At least in the early going, that experience may provide a crucial edge.

By Bart Ziegler in White Plains, N.Y.

IBM LEANS ON ITS SALES FORCE

Rarely has so much pay been tied to profits and customer satisfaction

The \$382 million in net earnings that IBM reported for the fourth quarter of 1993 has given the computer giant its first taste of black ink in more than a year. And Chief Executive Louis V. Gerstner Jr. wants more in 1994. Having slashed overhead, hired new top managers, and rejiggered the organization, he's now turning to the 30,000 men and women around the world who sell IBM products and services. This year, they'll be asked to bring home the bacon—not just sales but profits. In an unprecedented move, IBM is tying 60% of sales-force commissions to the profits they bring in.

That's a sharp departure. Last year, only 20% of compensation above the base salary—the bulk of a salesperson's pay—was tied to profits. The year before, it was 6%. "We have gone from different sales objectives to financial objectives," says Robert J. LaBant, the senior vice-president in charge of sales and marketing in the U.S. and Canada. In the past, IBM has adjusted the compensation plan every January—usually to boost sales of specific products or raise market share in targeted areas. Mainly, Armonk wanted to hit revenue targets—however it could. "In the old days, we'd give a branch manager a revenue quota, and that would be it. We'd see him at the yearend, and he'd tell us how he did," says Duke N. Mitchell, general manager for IBM's New Jersey trading area.

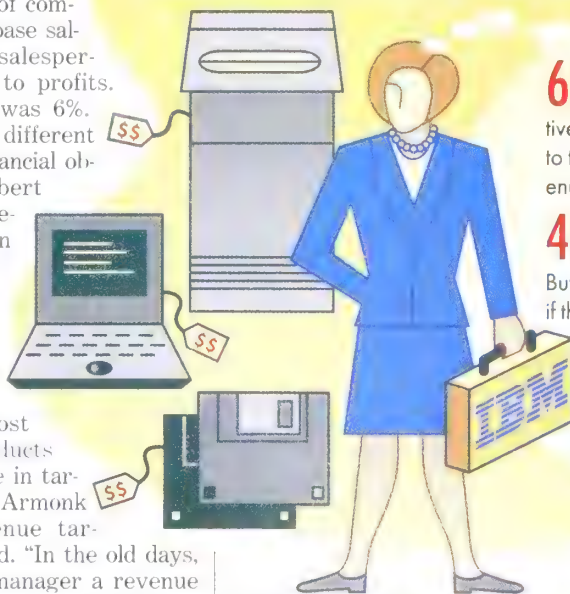
SMILING CUSTOMERS? The switch to pay-for-profits is intended to stop the sales force from cutting deals without understanding what they—and IBM—stand to make on the order. And to make sure that sales reps don't simply push fast-turnover, high-margin products, LaBant is linking the remaining 40% of their commission to customer

satisfaction. By doing that, LaBant & Co. are sending the right message to IBM's salespeople, says Marc Butlein, chairman of market-watcher Meta Group. "It makes them more like business managers," he says.

Part and parcel of the compensation program is a new information system to let the salesperson know what the margins are on various products—until now, closely guarded secrets. Since 1991, headquarters has given IBM reps some

IBM TO SALES FORCE: BRING IN PROFITS

How IBM's sales force will earn their commissions in 1994:



60% PROFITABILITY

Sales representative is compensated according to the profitability, not overall revenue, on an order

40% CUSTOMER SATISFACTION

Buyers are surveyed to determine if they're happy with the local sales team and if sales representatives have helped them achieve their business objectives

latitude on pricing so that they could close deals. But they had no way of knowing how much profit they were giving up—and had little reason to care.

Another benefit of the new compensations scheme is that it begins to simplify how the company evaluates its salespeople, says LaBant. Until recently, it wasn't unusual to find 240 separate measurements for a branch manager because different product groups would set quotas to spur sales of their gear. "We used to have a lot of real goo-ball measurements," LaBant concedes. Now,

he says, the sales representative only needs to worry about two things: satisfying the customer and profits.

Pay-for-profit isn't unique. It's a growing trend. But few companies have tied so much pay to profits. Computer services giant Electronic Data Systems Corp. has based a portion of its sales commission on the profits in a deal, but it's only one of several gauges. And even Digital Equipment Corp. is moving managers that oversee large territories in that direction. But DEC will not extend that plan to individual salespeople. Most computer companies are closer to the model used at Hewlett-Packard Co. HP pays salespeople a variable commission of up to 40% based on the overall revenue from a deal. "It's pretty aggressive," says Alan D. Bickel, an HP senior vice-president, of IBM's plan. "My worry about something as high as 60% focused on profitability is that I have a feeling the customer could be the loser."

"HIGH MARKS." IBM's insurance against overzealous salespeople is that a chunk of pay linked to customer satisfaction. 40% of compensation, IBM Blue's payback for customer satisfaction is about the highest around. They give them high marks for that—most organizations only have that up to 20%, says Craig Ulrich, a compensation specialist with consultants William Mercer Inc. Moreover, Ulrich says, it makes good sense to give the sales force the same accountability top executives have. ready, Gerstner has tied 7

of the compensation—above base pay—for members of his executive committee to corporate profits. And the general managers underneath those executives have 35% of their pay tied to profitability.

So far, customers like the idea. "The notion of driving profitability measurement as far down in the organization as you can is superb," says John D. Lowenberg, CEO of Aetna Information Technology, the computer arm of Aetna Life & Casualty Co. And with so much money tied to customer satisfaction, he expects to be satisfied indeed.

By Ira Sager in Armonk, N.Y., and Gary McWilliams in Boston and Robert D. Hof in San Francisco

The trade barriers are down in Europe. Keep up with the competition at the Hannover Industrial Fair.

The fact that Europe is moving toward a single market economy doesn't have to mean lost market share for your company. On the contrary, a visit to the Hannover Industrial Fair will reveal opportunities for new growth. See the latest developments in manufacturing technology and materials. Assess the needs of the international marketplace. Make new overseas contacts. Investigate new business opportunities. With over 6,800 exhibitors from virtually every sector of industry and some 400,000 visitors, the Hannover Fair offers an unmatched opportunity not only for keeping up with the competition - but staying ahead of it.

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MONKEY SEE, MONKEY SUE

Well-publicized settlements are spurring bandwagon lawsuits

When Bic Corp. paid \$3.25 million to Cynthia Littlejohn in 1986, the company thought it was closing the book on a sad story. Littlejohn was badly burned when a Bic lighter exploded in her jacket pocket. But soon after, the Milford (Conn.)-based manufacturer realized its problems were just beginning.

Following the highly publicized settlement, Bic was inundated by suits from individuals who claimed that they, too, had been injured by defective Bic lighters. Nearly eight years later, the suits are still pouring in. But what happened recently surprised even Bic's seasoned legal department. Over the past 18 months, the company has been sued by four inmates from a prison in West Virginia. They all claimed that they were injured by faulty Bic lighters. Then another suit rolled in from a prisoner in another state. It turned out he had served time with the convicts at the first prison. "We've learned that any commodity sold in prison becomes a target for lawsuits," reflects Bic's Corporate Counsel Thomas M. Kelleher.

"NOT EFFICIENT." Unfortunately for companies, the practice isn't confined to jailhouse lawyers. Fueled by a well-organized plaintiffs' bar and widespread press coverage of jury verdicts, executive shakeups, injuries, or disasters, industries coast-to-coast are falling prey to bandwagon litigation. "Once anybody sees blood, there is a tremendous increase in litigation," says Richard A. Daynard, a professor at Northeastern University Law School.

The small world of football-helmet manufacturers, for instance, has seen its ranks shrink from 18 to just 2, in part because multiple product-liability suits forced most companies out of the business. On Dec. 3, Koene Corp., a for-

mer manufacturer of insulation products, became the 18th company in its industry to declare bankruptcy after failing to resolve massive asbestos claims.

And after \$105 million was awarded last year to the family of a teenager killed in a General Motors Corp. pickup truck that ignited when its gas tank was



struck, GM immediately began hearing from other truck owners. In all, GM was hit with 38 class actions. GM settled the cases in December. "It's not efficient for a defendant to defend the same suit in multiple forums around the country," says Michael J. Basford, the manager of GM's general litigation.

To most legal experts, the reason

bandwagon litigation is so problematic because it is virtually unavoidable. It pits the most coveted aspects of the American legal system, which rightly provide individuals with an opportunity to get even when they are wrong, against companies' desire to compensate deserving plaintiffs without suffering financial harm. "A company doesn't want to throw a lot of money at a problem unless it can be done with it," says Andrew T. Berry, a defense lawyer with McCarter & English in Newark, N.J. "To the extent that the legal system doesn't allow that to happen, you have real tension."

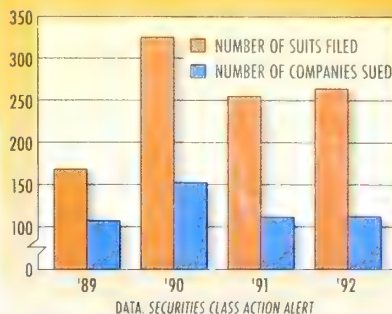
NETWORKING. Such tension has sparked interest in trying to mirror the British legal system, which requires a case loser to pay the winner's expenses, thus sharply curtailing meritless actions. That debate, however, has remained largely theoretical since many repetitive suits are justifiable actions brought by innocent victims of corporate wrongdoing. Instead, plaintiff lawyers have banded together, sometimes through companion suits, to snuff out incriminating evidence and force companies to admit liability.

The Association of Trial Lawyers of America assists its members in maintaining a data base on more than 6,500 kinds of cases. ATLA members can also network through classified advertising carried in association publications. As in the December issue of ATLA's *Advocate* seek information on everything from problems associated with individuals inhaling Glade air freshener to kids burned by the Big Bird Sparklin' Smiley Battery-Operated Toothbrush.

Traditionally, the product-liability field has been the most fertile for multi-party cases. But these days, much of the pile-on comes from shareholder suits. A review of cases conducted by *Securities Class Action Alert*, a newsletter based in Cresskill, N.J., found that shareholder class actions filed in federal court have increased by 57% in the past four years while the number of companies sued has risen only 4.6%. "It's a typical scenario for four, five, or more class actions to be filed simultaneously, all concerning the same stock-price drop," suggests Jonathan C. Dickey, a defense lawyer in Palo Alto, Calif.

That has certainly been the experience of companies such as Exabyte Corp., a maker of high-capacity 8mm computer cartridges based in Boulder,

SHAREHOLDERS PILE ON



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FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Colo. Exabyte received the first of eight class actions within 48 hours of disclosing lower-than-expected earnings—a notice that led to a sharp drop in its stock. The suits were so similar that some of them even shared the same typographical and spelling errors. Although the cases were dismissed last May, the company is still smarting from the fallout. “When an average person reads that eight suits have been filed against Exabyte, it sounds a lot more severe than reading that one lawyer somewhere filed a suit,” says Peter D. Behrendt, Exabyte’s CEO. “People think you must have done something really horrendous.”

JUMBOS. Most executives and defense lawyers blame the increased popularity of shareholder litigation on its high rate of return. A National Economic Research Associates study in October shows that from July, 1991, to June, 1993, 253 of 300 securities class actions were settled. “Are you going to put the time and money into defending a suit,” says Thomas R. Lavelle, corporate group counsel at Intel Corp., “or are you going to focus on getting your business turned around?”

Why then, plaintiff lawyers ask, are so many companies agreeing to so many jumbo settlements? William S. Lerach, one of the most successful shareholder class-action lawyers, says companies such as L. A. Gear Inc., which paid \$53 million to settle a series of class actions, or Washington Public Power Supply System, which paid \$757 million, are paying more than nuisance values to settle. Lerach contends that: “These are amounts of money so far beyond the cost of defense that [the companies] are obviously” worried about more than hefty payouts.

Still, some companies are taking the offensive to avert a bandwagon problem. Bic, for example, has adopted a “don’t settle” policy. Kelleher says it’s working, noting that cases against Bic have dropped 57% in the past five years. At Intel, which isn’t shy about using the courts to protect its patents, executives are now more conservative when commenting on the company. They want to steer clear of liability should those comments later prove inaccurate.

Other efforts are under way to stem the endless flow of litigation. After years of haggling, Congress is expected to pass a bill of product-liability reform later this year. Legislative proposals to make it more difficult for shareholders to bring class actions are being considered on Capitol Hill. Yet such initiatives are not likely to halt bandwagon litigation. Doing that would require a radical overhaul of the American legal system—a move that isn’t likely to garner much support from either plaintiffs or defendants.

By Linda Himmelstein in New York

Economics

TAXES

THE RUSH TO ROLL BACK TAXES

States cuts are back in vogue: They’re proven growth-boosters

Is America about to catch tax-cut fever again? In 1978, it was California that started the last tax revolt with Proposition 13, which capped property taxes. This time, New Jersey is leading the way. During last fall’s campaign for governor, Christine Todd Whitman proposed slashing state income taxes by 30% over the next three years. Then, she upped the ante at her inauguration in January, pledging to immediately cut income taxes by 5%, retroactive to Jan. 1, 1994.

Whitman’s tax-cutting plan faces formidable political and financial obstacles. But even if she fails, other states seem likely to pick up the tax-cut banner. In part, that’s because lower taxes are always popular with voters. But they also may make economic sense, even though the result is likely to be a painful reduction in public services. The reason? States with low taxes have shown clearly superior economic performance in recent years.

STRIKING. According to a new analysis by BUSINESS WEEK, job growth in low-tax states over the last eight years has been a stunning 65% higher than in high-tax states (chart). In the 10 states with the highest tax burden—as measured by state and local taxes on businesses and individuals as a share of personal income—the number of jobs in the private sector has risen by some 13% since 1985. By comparison, the 10 states with the lowest tax burden have enjoyed job growth averaging almost 22% over that same period. That’s a striking difference at a time when states are struggling for every job they can get.

And there’s a growing consensus among economists that state and local taxes have a significant effect on almost every other aspect of economic activity—business-location decisions, startups, and income growth. That view, based on better data and new econometric

studies, is far different from the prevailing economic wisdom of just a few years ago, which said taxes didn’t have much impact. Even liberal Democrats are pushing for tax cuts to boost growth, including Governor Mario Cuomo of New York, who leads one of the nation’s most heavily taxed states.

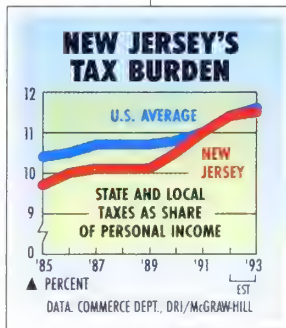
VOODOO REDUX. But there’s a catch. Creating jobs by reducing taxes is an expensive proposition. Each new job generated by cutting business tax costs \$130,000 in foregone revenues, estimates Timothy J. Bartik, senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo

Mich. And most economists believe that personal tax cuts, such as the one Whitman is proposing, would be an even more costly means of fostering new jobs.

The overall revenue loss from a low-tax strategy can be considerable. Take New Jersey. Whitman’s tax cuts are projected to cost some \$1.5 billion over

three years. On top of an already yawning deficit for the next fiscal year, that represents a giant hole that needs to be plugged by making state government more efficient, cutting services, or reducing payments to individuals and local governments. Many county and town officials oppose Whitman’s plan, worrying that it will force them to raise property taxes to make up for diminished revenue from the state.

Some advocates of state tax cuts claim that lower rates could boost growth enough to pay for themselves by encouraging entrepreneurial activity and business startups. Remember, that’s the argument used by supply-side economists to justify the Reagan tax cuts of the early 1980s. But George Bush was right when, during his campaign against Reagan for the 1980 Republican Presidential nomination, he called the idea “voodoo economics.” After the tax



ts were passed in 1981, the federal dget deficits soared and the national bt rose from \$994 billion in 1981 to 2 trillion in 1990.

Likewise, economic studies show that state that cuts its taxes should expect a big drop in tax revenues along with faster growth. To be sure, the revenue drop is not likely to be as big as one experienced by the federal government in the Reagan years since a low-tax state can lure jobs from elsewhere in the country. Still, says Bar: "You're not going to get enough increase in business activity to outweigh the rate cut."

The fact is that there's an unavoidable trade-off: States with lower tax burdens have less money available to spend on public programs such as education, transportation, and crime prevention. Economists have found evidence that in the long run, states that pay for taxes by slashing spending on critical areas such as highways or higher education may actually become less attractive to business.

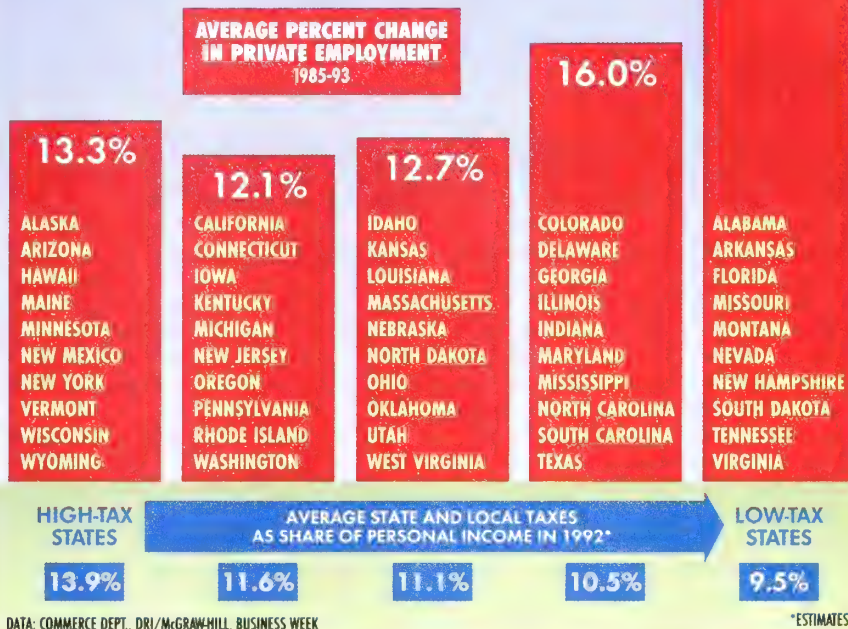
Moreover, big tax cuts and the spending cuts that come with them are sure to bring immediate distress for residents, who expect good schools for their children, protection from crime, and well-plowed streets after a snowstorm. The poor, too, will suffer as social services are cut. "The money paid for taxes is used to provide services that people want," observes Howard Chernick, a public-finance expert at New York's Hunter College. "It doesn't just disappear into a black hole."

UTER LIMITS. But more and more, the balance is shifting in favor of cutting taxes. For one, states increased taxes during the recession to keep their budgets balanced. As a result, state and local taxes as a share of personal income have risen to their highest level since the mid-1970s, which was the time when last tax revolts started. Now that the national economy is finally recovering, incomes and overall revenues are rising, giving many states some leeway to roll back rates again.

In addition, the penalty for being a high-tax state is increasing as businesses become more cost-conscious. For years, state and local governments have been willing to cut taxes on a case-by-case basis, offering tax breaks to woo employers. Now, there may be a wave of wholesale tax-cutting as states try to attract startups and small high-tech businesses. "As locations become more interchangeable, standing out with high taxes becomes more anticompetitive over time," says Chernick.

Even where tax cuts don't have a dramatic economic impact, they can signal a change in the business climate.

LOW-TAX STATES CREATE MORE JOBS



That's what happened in Massachusetts, which made some relatively minor tax cuts in 1992. While the gradual recovery of the state cannot be attributed to the cuts, "they've been of significant symbolic importance for the economy," says regional economist Peter P. Kozel of Babson College in Wellesley, Mass. "The state was getting into the outer limits in terms of its overall tax burden, but now we're more in line with other states. There has been a significant improvement in business attitudes" as a result of the cuts, Kozel says.

What Whitman is doing in New Jersey is trying to reverse a rising tax burden. Over the past 10 years, New Jersey has moved from being a low-tax state to having a tax burden above 11%, very close to the national average (chart). That means New Jersey has lost the low-tax competitive advantage enjoyed by states such as Tennessee and Nevada, which have shown far better job growth in recent years.

But New Jersey is still a tax haven compared with New York. State and local taxes there total 15% of personal

income, far higher than almost anywhere else in the country. The only state higher is Alaska—a special case because of hefty taxes on oil production. For years, New York was able to offset high tax rates with its strengths as a financial and cultural center, but that may no longer be enough. Indeed, Cuomo is proposing to pare back several different kinds of taxes and fees on business in hopes of reviving the state's moribund economy. "It makes sense for New York to come back" to the national average, says Chernick. "It's too far out of line."

Tax-cut fever is spreading to other parts of the country, without regard to party lines. Georgia Governor Zell B. Miller, a Democrat, wants to cut personal income taxes by \$100 million, as does Republican Governor Fife Symington of Arizona. In Massachusetts, Governor William Weld has recently proposed a new budget that would slice personal income taxes by \$270 million, on top of his earlier cuts. And tax-cut rumblings can be heard in other states, such as Washington, where Governor Mike Lowry, a Democrat, has pledged tax breaks for high-tech industries.

The latest round of proposals to reduce taxes is a welcome relief to Americans, especially in light of higher taxes on the federal level. Tax-cutting states will have to tighten their belts, but the gain may be worth the pain.

By Michael J. Mandel in New York, with Geoffrey Smith in Boston

**In the long run, states that
tax spending on education
and infrastructure may be
less attractive to business**

DOLE'S STUNTED HARVEST

CEO David Murdock's attempts to exploit Dole Foods' rich real estate holdings have flopped

It has been dubbed "The Private Island." A scant eight miles off Maui, Lana'i is isolated from the usual throngs of tourists that stream through Hawaii. With its verdant valleys and white sandy beaches, it remains a tropical paradise—and one secluded enough that Microsoft Corp. Chairman William H. Gates III chose it as the setting for his recent wedding. Unfortunately for the island's owner, Dole Food Co., Lana'i seems a little too private. A few years ago, Dole decided to transform this pineapple-growing outpost into a lavish resort. But even with the completion of a second luxury hotel in May, 1991, and a second golf course in December, Lana'i hasn't attracted many visitors. Analysts reckon the resort has lost \$117 million since 1991.

The ambitious venture speaks volumes about Dole CEO David H. Murdock's grand real estate strategy. With the real estate market in the doldrums, many of Dole's projects have floundered. And attempts to sell off company-owned properties in California and Hawaii have fizzled. Last year, Dole scrapped two separate plans to securitize millions of dollars in commercial and industrial real estate. The company blamed weak demand. But Murdock also acknowledges that he and Dole executives were concerned over the appearance of a conflict of interest because the deals included properties that he personally owned. "Somboddy's going to say that Murdock is trying to take advantage of Dole," says Murdock. "I said who needs it. I'm not a poor man out there trying to do a deal to make myself a few bucks."

HIDDEN GEM. The failed attempts to wring profits from real estate come at a painful time for Dole. One of the largest produce companies in the world, Dole has been battered in recent years by softening prices for bananas and for pineapples. That has made for some disappointing results. Last year, Dole's operating income fell 8%, to \$170 million, as its revenues rose less than 1%, to \$3.4 billion, according to estimates by

analyst Michael J. Branca of NatWest Securities Corp. Those returns haven't exactly cheered shareholders. Since September, 1991, Dole's stock has fallen 40%, to about 29.

Although the food business accounts for roughly 90% of Dole's revenues, the real estate holdings have long been viewed by Wall Street as the company's hidden gem. Founded in 1851, Dole, formerly known as Castle & Cook Inc., has acquired huge tracts of farmland over the decades—roughly 150,000 acres in California and Hawaii. That doesn't even include the 80,000 or so acres of land it owns abroad that produce Dole fruits. At current prices, Dole's most appealing U.S. properties are worth up to \$1 billion, estimates one of Dole's big shareholders. But much of this real estate has done little for Dole's bottom line—and its stock price. "Real estate isn't traditionally recognized in the stock market," comments the investor.

Almost from the time he became CEO in 1985, Murdock, 70, has vowed to exploit Dole's real estate holdings. And few seemed better equipped to tap the hidden value. Hardly a food-industry expert, Murdock ended up at Dole when he played the white knight, warding off a hostile bid by financier Irwin L. Jacobs. In return for stock, Murdock merged his Flexi-Van Corp., a truck-leasing company, with Dole. The deal made Murdock Dole's biggest single shareholder. Nowadays, he owns 23% of the company. Before that, he spent much of his career on pricey and exclusive real estate projects. He built and owns the exclusive Regency Club in west Los Angeles and owns a number of high-end hotels. And with the board's approval, Murdock has continued to pursue his own projects outside Dole.

At Dole, Murdock's plan has

been straightforward: sell off the properties that were immediately marketable. The rest would be developed by Dole to improve their appeal and then sold off, too. At first, Murdock moved aggressively. In Bakersfield, Calif., he even purchased more than 9,000 acres to build single-family homes and apartment complexes, as well as industrial properties. Then came the real estate market collapse that began in late 1989. The downturn dried up financing for ambitious development and narrowed the list of potential buyers for Dole's properties.

AS MURDOCK'S PLANS FIZZLE...

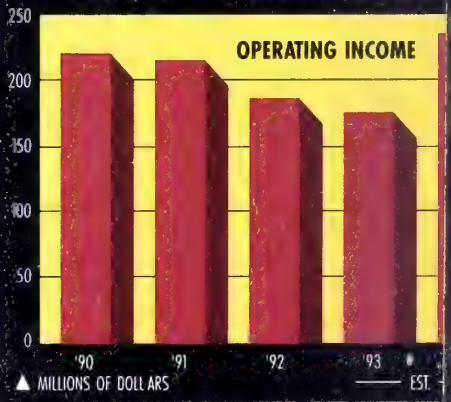
MAY, 1990 Plans to split Dole into separate real estate and food companies is scrapped as banks balk at financing the real estate business.

JULY, 1990 After receiving a bid from an undisclosed company, Murdock puts Dole's operations on the block. He rejects the offer as inadequate.

MAY, 1991 The second of Dole's resort hotels on Lana'i opens for business. But total cost of development exceeds \$300 million—50% over budget.

DECEMBER, 1993 With the real estate market in a tailspin, Murdock temporarily shelves plans to sell several properties backed by Dole's real estate.

...DOLE'S PROFITS WOBBLE



Nowadays, Dole's real estate holdings are less a treasure than a burden. But, Murdock managed to sell 18% of Dole's home-building operation for \$42 million in a public offering last March. At Lana'i has so far cost Dole \$340 million—50% more than initially planned—in part because of costly construction delays over regulatory issues, such as the island's water supply. Nor is the resort business exactly booming these days. Dole acknowledges that the vacancy rate at its two Lana'i hotels is running at about 50%. Analysts have even begun to question the wisdom of Murdock's plans to build 775 luxury homes on the island, with prices ranging as high as \$900,000. "Projects like that are dead in the water," says Darryl Lai, a real estate consultant with PKF Hawaii. Murdock, though, insists the homes will sell.

He can't yet make such claims for Dole's big commercial properties. Last year, with real estate investment trusts flooding the market, Murdock hatched a plan to offer a REIT that would have included major portions of Dole's \$190 million in commercial and industrial properties. To sweeten the deal, Murdock says he wanted to include another \$240 mil-

lion in office and apartment properties that Dole tentatively agreed to buy. Murdock also says he intended to add some of his own personal real estate holdings. Under the proposed deal, the real estate would have been spun off into a partnership owned by Murdock, Dole, and the REIT, according to an advisor to Murdock.

As it turned out, the REIT never made it to market. Murdock says the properties were too dissimilar and too spread out geographically at a time when REIT investors were clamoring for tightly focused offerings. But he also acknowledges that he and others at Dole had second thoughts about including his properties in the deal. One investment banker familiar with the deal says Murdock was cautioned that potential buyers might be worried that he was using the REIT to shed his less desirable proper-

**ON LANA'I:
DESPITE
WHITE, SANDY
BEACHES AND
LUSH
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VACANCY
RATE AT DOLE
HOTELS IS
NEAR 50%**



ties. In the end, "it was an undoable deal," says the banker.

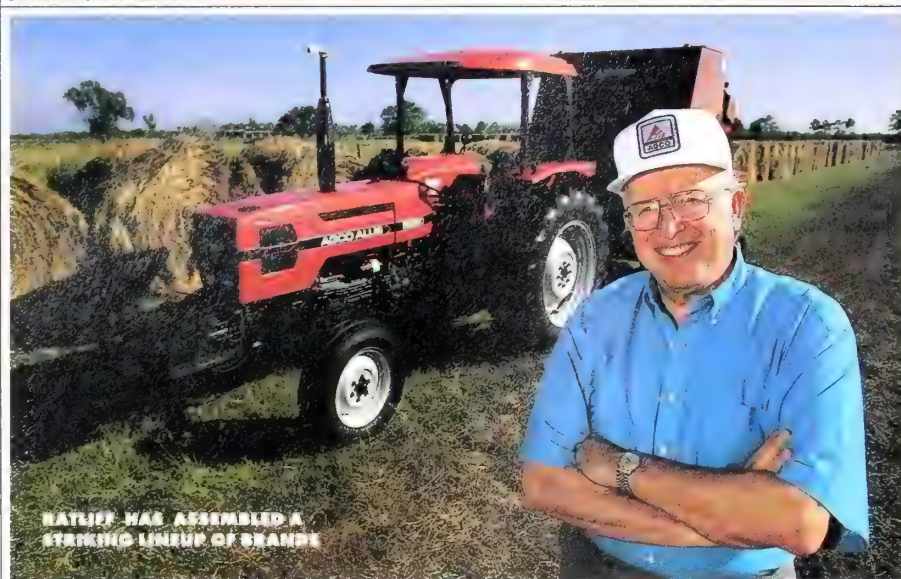
Murdock says he added his own holdings to enlarge the deal and attract more investors—not to turn a profit. "I'm very scrupulous," he says. Dole says it never finalized the list of properties that would have gone in the offering. Board members decline to comment.

LOST CREDIBILITY. Although the first deal went nowhere, Murdock tried again to sell off some of Dole's—and his own—real estate. Late last year, Dole's chief contemplated securitizing some of his and Dole's real estate by issuing debt backed by much of the real estate intended for the REIT. Again, there were questions within Dole over whether the deal would be perceived as having a conflict of interest, Murdock says. After deciding to pull his properties out of the deal, Murdock says the entire plan was shelved as a result of the high interest rates the securities would have had to pay out to investors.

With the big real estate payoff no longer in sight, Murdock is looking to squeeze as much as he can out of the food business. In the past year, he has cut \$130 million in annual costs out of Dole's overhead through moves such as trimming the head count by 5,000—10% of the company's total. Thanks largely to cost-cutting, NatWest's Branca estimates that Dole's operating income could climb 38% this year, to \$235 million, as revenues rise 9%, to \$3.7 billion. Murdock also has plans to gain wider market share in Europe by spending at least \$125 million—much of it this year—to buy small local distributors.

Still, because of Dole's poor performance and a seemingly unfocused strategy that ranges from European expansion to REITs, Murdock has lost credibility on Wall Street lately. "This guy is all over the lot," says analyst Timothy S. Ramey of C.J. Lawrence Inc. "This doesn't instill confidence." Maybe not. But there's no sign that directors or shareholders are pushing for a replacement soon. After all, Murdock has nearly \$400 million of his own tied up in Dole stock—so they're probably betting that no one has more of an incentive to get Dole humming again.

By Amy Barrett in Los Angeles



RATLIFF HAS ASSEMBLED A STRIKING LINEUP OF BRANDS

AGCO TRACTORS ROAR DOWN THE FAST TRACK

It's swallowing rivals—and Wall Street is impressed

At first glance, AGCO Corp. doesn't look like a hot growth company. It's not into biotech or software. Mostly, it sells tractors. Still, AGCO, based in Norcross, Ga., isn't being treated like a hayseed on Wall Street. Over the past year, its stock has climbed 220%, to around 39. And analysts expect more gains in the coming year.

So how does AGCO manage to reap that kind of reward? Acquisitions. Since 1991, CEO Robert J. Ratliff has snapped up four competitors at a cost of \$186 million. He closed his latest deal in December, with the acquisition of White-New Idea Farm Equipment, a division of Allied Products Corp. "We're not creating new business, we're taking it away from our competitors," says Ratliff, 62.

HUGE NETWORK. The buying binge has allowed Ratliff to offer a broad product line, from tractors to harvesters, at varied prices. For example, AGCO's tractors range from a no-frills \$16,000 Massey Ferguson to a top-of-the-line White model that lists for \$99,000. Even better, each acquisition has brought along its own dealerships, enabling Ratliff to build the biggest network of independent farm-equipment dealers in the nation. AGCO boasts 3,300 dealers, compared with 1,500

at industry leader Deere & Co. Largely because of that extensive distribution, analyst Andrew J. Silver of Dillon, Read & Co. says that AGCO's 1994 profits could grow 39% above last year's expected earnings, to \$39.5 million, as its revenues climb 21%, to \$700 million.

AGCO wasn't always such a barn-burner. Formerly named Deutz-Allis Corp., it was owned by Kloeckner-Humbolt-Deutz, a German machinery manufacturer. But Deutz-Allis, which had purchased the farm-equipment unit of Allis-Chalmers Corp. in 1985, was losing money, largely because of steep costs and poor marketing. In 1988, the company recruited Ratliff, a former executive at International Harvester Co. Gradually, he helped to turn things around. Still, after German unification, the parent wanted to sell its U.S. business to explore opportunities in eastern Germany.

So in June, 1990, Ratliff and his management team bought Deutz-Allis through an \$89.4 million leveraged buyout. Instead of borrowing the money, they raised \$100 million by selling Whirlpool Financial Corp. receivables owed by the company's dealers. "We started out with no debt," boasts Ratliff, who owns 3% of AGCO.

With new customers scarce, Ratliff, who renamed the company AGCO, began scouting out acquisitions. In 1991, AGCO bought Fiat's Hesston Corp. and Allied Products' White Tractor Div. for \$80 million—again financed by selling receivables. Then, tapping a \$275 million line of credit with ITT Commercial Finance Corp., AGCO last year purchased White-New Idea and North American distribution rights for Massey Ferguson farm equipment. And the shopping spree isn't over. Though small tractor companies are now scarce in the U.S., Ratliff is eyeing makers of other farm implements, as well as small manufacturers in Europe.

Despite recent successes, the company faces some stiff challenges. To reap the benefits from his dealer network, Ratliff has to persuade dealerships to sell a wider selection of AGCO brands. But that's a tricky process. He has to make sure that his dealerships don't start competing with one another. "If there was a White dealer and a Massey dealer in the same location, only one of them could have Hesston," he says.

A HARSH CLIMATE. Then there are the steep costs that are associated with AGCO's acquisition strategy. Ratliff used \$62 million that was raised through an initial public offering in April, 1992, to pay down debt. But with the purchase of White-New Idea, AGCO's debt-to-capital ratio jumped to 70% from 40%. Ratliff says that he may have to draw on earnings in 1994 to get it back to a more comfortable 50%.

On top of that, the farm-equipment business isn't too inviting these days. It's dominated by Deere & Co., John Deere, and J.I. Case. And it's notoriously cyclical. That's why Ratliff has avoided buying too many fixed assets. AGCO owns only two plants and has a joint venture with Case in another facility. About 75%

of AGCO's equipment is manufactured under contract by Italian manufacturer SLH and other suppliers.

Ratliff reckons his acquisition approach will keep the company making plenty of hay. If so, AGCO might enjoy the distinction of being the hottest growth company for a little while longer.

By Maria Mallory in Norcross, Ga.

AGCO'S BUYING SPREE

Company/Date purchased	Price Millions	Products
HESSTON March, 1991	\$26.0	Hay tools, forage equipment
WHITE TRACTOR May, 1991	10.1	Tractors
MASSEY FERGUSON* January, 1993	94.8	Tractors, self-propelled combines, hay tools
WHITE-NEW IDEA FARM EQUIPMENT December, 1993	54.8	Planters, hay tools, tillage equipment

*Source: Bureau of Economic Analysis

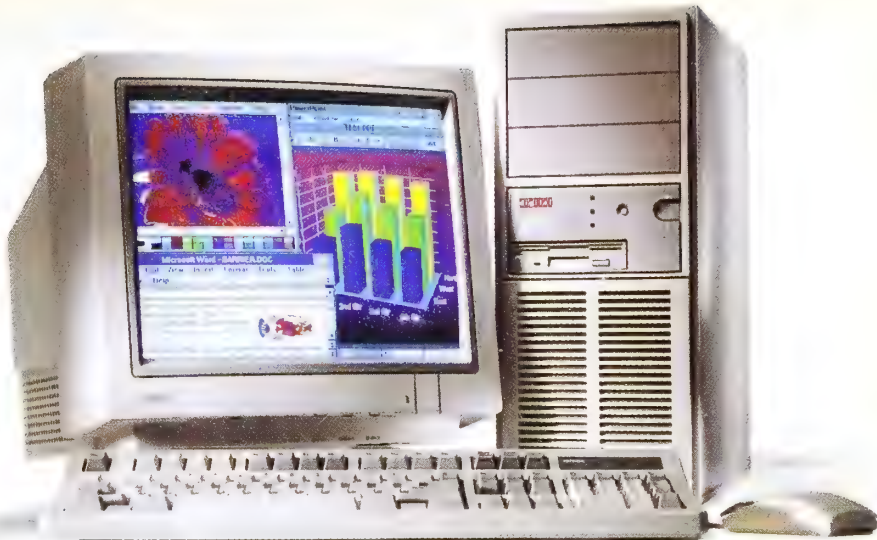
DATA: COMPANY REPORTS, BUSINESS WEEK

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EDITED BY AMY DUNKIN

Planning

HOW HAPPY WILL YOUR RETURNS BE?

Andrea Markesin, an accountant and divorced mother of one, will file her return this year as a single head of household. That allows her to claim up to \$127,500 in income taxed at the old 31% top rate. If she were to marry her boyfriend, who makes at least as much as she does, she would run right through the new 36% bracket and go several thousand into the 39.6% range. "It would be stupid to get married," she says, adding that her beau plans to hold her to that statement when the subject of marriage comes up.

The "marriage penalty" is nothing new. But for high-income earners, the old ball and chain is going to be a lot heavier. They're just one of the groups likely to feel some pain from the '93 tax hikes. And affected taxpayers may owe more than they thought, since the withholding tables weren't adjusted to account for the hikes. Also, complying with requirements to defer payment of the additional taxes may be tricky. The good news: The bulk of taxpayers won't fork over much more than they did last year. You may even get a break, especially if you are self-employed, gave a gift of appreciated property, or

live in a federally declared disaster area. But lots of first-time investors may have to crunch some numbers to figure out what they owe on mutual-fund gains.

WEDDED BLUES. The marriage penalty is particularly pernicious in that it traps people who may not individually make all that much but whose combined income drives them over the limits. It only takes two people earning \$80,000 apiece to move from the 31% to the 36% bracket. Yet two single people living together can earn up to \$230,000 before they hit 36%. The difference is more dramatic when you add a 10% surcharge—for

an effective rate of 39.6%—for anyone making over \$250,000. An unmarried couple can earn twice that before facing the maximum hit.

The tax tables turn against unmarried wage earners at lower income levels. This is the seldom-noticed singles penalty, which gives an advantage to married couples when one spouse

makes little or no money. Such a married person making \$80,000 would pay only 28% in taxes, while a single person making the same amount would pay 31%, says Markesin.

The good news for those on both ends of the income

spectrum is that you may be entitled to a refund if you paid taxes on certain items that lost their deductible status for the second half of 1992 when Congress failed to renew them. These items are now retroactively deductible, and if this pertains to you, you'll want to amend your 1992 taxes for a refund. You are eligible if: you're self-employed and paid full taxes on the cost of your health-care coverage in '92; you paid taxes on special training or educational assistance provided by your boss; you paid excise taxes on luxury items such as boats, furs, and jewelry; or you paid alternative-minimum taxes on a charitable contribution of appreciated property.

There's also good news for those who really need it: People whose homes were destroyed in federally declared disaster areas, such as the

flooded plains of the Midwest, hurricane-ravaged communities in the Southeast, the West's earthquake-stricken sections. The rules relating to insurance reimbursement have been greased. You now have years instead of two to place your home, and you no longer need to distinguish between reimbursements for house and those for its contents. As long as you spread all your insurance proceeds you won't be taxed on them according to *How the New Law Can Pay Off For You* by Peter Berkery (\$10; Professional Publishing).

For those subject to new increases, the bad news pretty much dominates, though you have the option of paying the additional burden in equal installments over three years, the strategy is more complicated than

TAXES YOUR

▶ A SPECIAL REPORT ON FILING

▶ THE '93 TAX HIKES: TWISTS AND TURNS

▶ FOR FAST REFUNDS, FILE ELECTRONICALLY

▶ UNCLE SAM WANTS FREQUENT FLYERS—TO PAY INCOME TAXES

▶ DEFANGING THE ALTERNATIVE MINIMUM





between the tax under the old and new rates. Thus, everyone electing the deferral will have to calculate their AMT liability.

You may need to start planning early because if you want the deferral, you have to elect it by Apr. 15. So taxpayers who usually get extensions "should file on time this year," says Stuart Kessler, tax partner at Goldstein, Golub, Kessler & Co. "You can get an extension and make the deferral election based on estimated income, but if you're one dollar off, you lose it."

HASSLES. Regardless of your tax bracket, if you're among those who poured taxable savings into mutual funds, you owe tax on your gains. New investors may not have considered this. "So many people are throwing

their money into funds and not realizing they're taking on record-keeping responsibilities they never contemplated," says Kevin Roach, a tax partner at Price Waterhouse.

Figuring out what you owe can be a daunting task, since in addition to knowing the share price when you initially invested, you have to account for income from reinvested

proceeds and capital gains earned but not paid out, which both add to your basis. Other factors, such as tax-free payouts or principal returned, lower your basis. Sometimes, managers will keep track of your tax liability, but no-load funds usually do not provide such records. So, you must piece together the various moves of your fund shares from your statements.

Once you've figured out your basis, you can use a formula to determine what your gains are. You take the total basis in all the shares and divide it by the number of shares you hold to get the basis-per-share for shares sold. Then, you compare that with your sales proceeds to determine your profit or loss. The Internal Revenue Service prescribes a rule that says the first shares acquired are the first sold. That tends to favor obtaining long-term capital gains if you've held shares for more than one year.

Looking ahead to the coming year, there are a few significant changes to keep in mind. Retirees may have to pay more taxes on their Social Security income. If your income, including 50% of your Social Security benefits, exceeds \$44,000 for married couples filing jointly or \$34,000 for singles, the taxable portion of your Social Security income goes up from 50% to 85%. You might want to reconsider your tax-exempt investments because the interest from these is counted as income for tax purposes. "Anyone making \$44,000, or close, should never look at the

municipal-bond rate and say that's an aftertax rate for me because that isn't for retirees," says Rick Taylor, a senior tax manager at KPGM Peat Marwick.

GET A RECEIPT. High-income earners will pay more Social Security taxes, too. All earned income is subject to the 2.9% Medicare tax. Last year, income above \$135,000 was exempt. Employees only pay half the bite, or 1.45%, employers pay the other half, but the self-employed are responsible for the whole thing.

To deduct charitable contributions for 1994, you need a written receipt—not just a canceled check—from the recipient of gifts of more than \$250. Charities should be happy to provide receipts, but if you don't want to bother, give a few separate gifts of less than \$250. Where you receive something for your contribution, such as a benefit dinner, your receipt should include a good-faith estimate of the value. To deduct a noncash gift of property—say, gardening tools or clothes—the charity must give you a receipt describing the property. Finally, gifts of appreciated property, such as securities, are now deductible for the AMT as well as regular taxes. This means you get to write off the full value of a stock that has risen, even though your basis may have been quite small.

This is just a taste of the changes to come. But there is a bright side: The tax increases will pass most people by. And if you are affected, that means you're doing very well.

Pam Black

FOR WHOM THE TAX-CHANGES TOLL

MARRIED COUPLES

combined income of \$40,000 or \$250,000 will put them at the 36% and 39.6% levels. Unmarried couples can make \$230,000 and \$400,000 before hitting those upper brackets. Couples with only one working spouse fare better than singles at lower income levels.

INVESTORS

Long-term capital gains are now much more desirable for high-income taxpayers. Capital gains are no longer considered investment income to offset against investment interest expense. You get a tax break even on capital gains from long-term investments in small companies.

RETIREES

Starting this year, those making more than \$44,000 (married) and \$34,000 (single) must pay taxes on 85% of their Social Security income, up from 50%. Since tax-exempt gains are considered income determining your threshold, municipal bonds may work against you.

THE WEALTHIEST

Starting this year, there's no longer a limit on the amount of earned income that is subject to the Medicare tax of 2.9%. Usually, this burden is split between employer and employee, so people who are self-employed will be hit the hardest.

DATA: BUSINESS WEEK

Filing

GETTING THE IRS TO COUGH UP QUICKER

You're anticipating a hefty tax refund and you don't want to wait long for Uncle Sam to pay up. By filing your income taxes electronically, you can speed your refund by several weeks.

Electronic filing is on the rise. The Internal Revenue Service expects that 14.6 million 1993 tax returns will be sent electronically, compared with 12.3 million the previous year. (Twenty-three states allow you to file state taxes electronically.)

The key benefit for most individuals is a faster refund, although people who owe money may also participate. Folks who file paper returns early can usually expect a check from the government within four to six weeks. Those who stall until deadline

time may have to wait two months. Yet electronic procrastinators can get a refund within three weeks, even sooner if the refund is directly deposited into a bank.

In addition, the IRS claims high-tech returns are more accurate. The error rate on paper runs around 15%; it's less than 2% on electronic returns. Another plus: The IRS notifies electronic filers that returns have been received.

Most individuals can't use their own modems to zap data to the government. Instead, they must visit tax preparers dubbed electronic-return originators by the IRS. These outfits usually charge a fee, so you must weigh this tab against the size of the coming refund. Most H&R Block offices charge \$35 to transmit already-prepared returns from individuals—\$25 if H&R Block has prepared the return. Jackson Hewitt



waives its average \$49 fee when it prepares a return. Not all paper is eliminated. Folks must still lend signatures to verification forms and send W-2s and other supporting documents to the IRS.

People wanting to taste refunds in days rather than weeks can take out a loan. Working with banking partners, Block, Jackson Hewitt,

and others can provide loans within to four days against the expected refund. At Block, the average loan fee is \$29. You must be getting a fund of at least \$3,000. Fees are filed so the smaller the fund, the more you effectively paying loan interest. Unless you really need money fast, it's better to avoid this costly alternative.

The IRS has been experimenting with other ways of gathering tax data. Service states now offer filers by phone, though only for persons with incomes under \$50,000 who receive a T. File packet by mail may be that way. Callers punch wage, interest income, withholding figures, and within minutes learn the size of their refund or how much they owe. It could give new meaning to the term "wire number." *Edward H.*

Smart Money

THE TAX FLAK AIMED AT FREQUENT FLIERS

It used to be all frequent fliers had to fret about was whether they could snare a free first-class upgrade to Cleveland or earn enough miles for that dream vacation in Waikiki. But in the wake of a well-publicized tax audit last year, Uncle Sam has added a new worry: stronger enforcement of a rule requiring income taxes on frequent-flier awards.

Although most airlines insist that their frequent-flier awards are a form of consumer rebate—and thus tax-free—the Internal Revenue Service takes a different view. U.S. tax troops consider personal trips to be fully taxable when the travel that earned the mileage was paid for by an employer. "If you receive miles for business travel and you use them for personal travel, you've created a tax-

able event," says IRS spokesman Don Roberts. "So you should report the fair-market value of that [award] ticket as income."

If this comes as news to you, you're not alone. Almost none of the 30 million flier-plan participants pay taxes on their freebies. A major reason: lax IRS enforcement. No IRS taxpayer bulletins explain the tax treatment of flier benefits or even how to value an award—a tough call given today's myriad fares. And in a private decision last year, the IRS ruled that airlines don't have to give the feds periodic

lic listings of flier account transactions or file Form 1099s, which alert the IRS to miscellaneous income, for members redeeming awards. "This is really an area that hasn't been policed," explains Tom Jackson, senior tax partner at Deloitte & Touche.

That means an IRS agent has to catch you, probably during an audit. Last year, several employees of a Florida software company were assessed back taxes and interest after an audit discovered the employer was buying the flier mileage from them for cash. While such sales are against airline rules, they aren't illegal. But the auditors found the employ-

ees never reported the cash payments as income on their tax filings.

So far, the handful of cases related to frequent-flier awards has involved cash paid for mileage or upgrade benefits. "That doesn't mean the IRS won't pursue the other side of the coin: non-cash transactions or free travel that's harder to value," says Stan Dale, publisher of *Mileage & Points*. He figures fliers most at risk for scrutiny are those who report extensive business travel on Form 2106 or Schedule C.

Tax experts still believe people who earn an occasional freebie as a result of company trips have little chance of being nabbed if they do report the awards. But those who accept cash payments for mileage or file forms that flag heavy business travel might find a subsequent visit from the feds especially taxing. *Jim E.*

TAXES
YOUR

Finances

EFANGING THE UGLY OL' LTERNATIVE MINIMUM TAX

The very rich used to be different from you and me: They were the only ones who worried about the alternative minimum tax. But changes in 1993 rates are giving more taxpayers who are in the top brackets what accountants call "an AMT problem." In fact, the dreaded tax is now more likely to snare taxpayers in the 31% bracket. They qualify for lots of de-

ductions and exemptions. It's too late to avoid the AMT for you, but you can take steps to change your financial outlook. First, you must understand the basics.

What is the AMT? The AMT is a separate set of tax rules from the ones most people know and love. It was created in 1986 to prevent taxpayers with a lot of "real" income—and tax breaks—from deducting their way out of paying their fair share. The AMT also gives a standard exemption on filing status and then applies a 6% or 28% rate. Taxpayers are taxed at a lower rate—but on a much broader base of income. You pay the tax only if it adds to more than your regular taxes.

How is it figured? Start with your regular taxable income and add back any "adjustments" and "preferences." These deductions allowed under regular tax rules but disallowed or in need of adjustment for the AMT. A full list is

available on the AMT form (No. 6251). Examples of things you need to add back include deductions for state and local taxes, and the amount by which the market value of a stock exceeds your purchase price when you exercise incentive stock options (ISOs).

After you've added back all the preference items to your taxable income, subtract your AMT exemption to get your

AMT income. Couples filing jointly can deduct up to \$45,000, and single filers can deduct \$33,750. But these deductions are graduated: Married people with AMT income over \$150,000 (above \$122,500 for singles) must reduce their exemption by 25% of the sum by which AMT income exceeds those amounts. Next, apply the AMT rate to your AMT income. The rate is 26% for income up to \$175,000 and 28% for the rest. Finally, compare your AMT with your regular tax, and pay whichever is higher.

How did 1993 tax-law changes affect the AMT? Before the rules changed last August, the AMT rate was a flat 24%. The new law increased the rates, making the system two-tiered. AMT exemptions were also increased. Before, couples could subtract \$40,000, and single filers could subtract \$30,000.

Since the top regular marginal rates (which went from 31% to 36% and 39.6%) rose by more than the AMT rates, high-income taxpayers are less likely to fall under the AMT this year. But people still in the 31% bracket, now that there is only a 5% difference between the AMT rate and the top regular rate, may find themselves in the AMT. Also, taxpayers with a lot of capital gains—taxed at 28% under the regular rules—are much more likely to be hit with the AMT.

How can I avoid the AMT in 1994? AMT planning is complex and varies depending on the mix of items that triggered the AMT. In general, you want to accelerate in-

come and defer deductions—the opposite of regular taxes. A professional can run the numbers for a few years with help from sophisticated software, says Mark Kersting of New York accounting firm Urbach Kahn & Werlin.

If you can defer deductions, you may avoid the AMT. If you can't avoid it, you may want to accelerate marginal income into the current year so it will be taxed at lower AMT rates, rather than the highest regular rates.

How can I make sure I qualify for an AMT credit? There is one silver lining to the AMT: You can claim a tax credit against your regular tax liability in future years for AMT attributable to "deferral" preferences, such as ISOs or accelerated depreciation. The idea is that, by paying the AMT, you are essentially prepaying taxes for income you have not yet realized. AMT taxpayers who can use these minimum tax credits are really losing only the time value of money. If you can look at it that way, an AMT problem should not seem so grave.

Amey Stone

TAXES YOUR



YOU MAY HAVE AN AMT PROBLEM IF...

- ▶ You live in a high-tax state, such as New York or California.
- ▶ You exercised incentive stock options.
- ▶ You own certain tax-advantaged investments, such as tax-exempt private-issue bonds or oil-and-gas limited partnerships.
- ▶ You claimed interest on a refinanced mortgage and the amount you refinanced was greater than your original mortgage, or you claimed home-equity interest and the loan wasn't used to improve your home.

DATA: BUSINESS WEEK

Worth Noting

TAX LINE. Money Minds, a telephone service that links callers with certified public accountants and certified financial planners, is offering a tax-time special. From Feb. 15 to Apr. 15, first-time users can ask as many tax questions as they want for a flat fee of \$10.40. The regular rate is \$3.95 a minute. Apr. 12 is Procrastinator's Day: All calls from 7 a.m. to 10 p.m. are free. Dial 800 ASK-A-CPA.

MUTUAL ASSISTANCE. Investors Funds Group is offering 1993 *Taxes and Mutual Funds*, a guide prepared for its own investors, to any caller at no cost. The 21-page booklet includes information on tax-law provisions that apply to mutual-fund investments. Call 800 525-8085.

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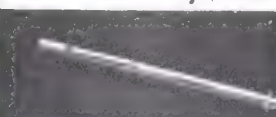
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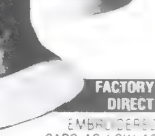
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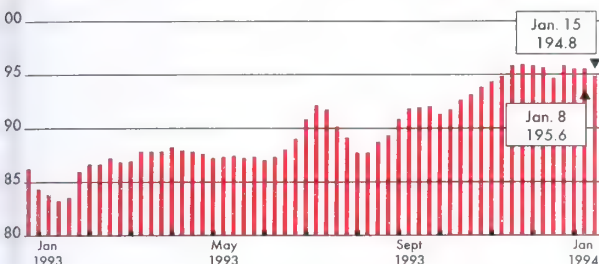
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PRODUCTION

Change from last week: -0.4%
Change from last year: 5.8%

1967=100 (four-week moving average)

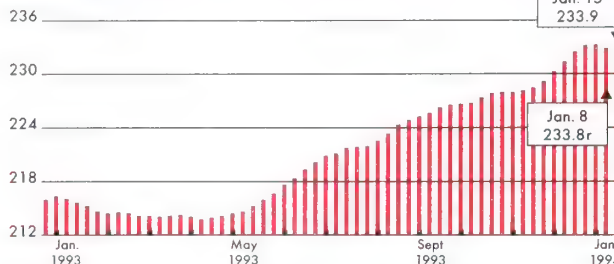


The production index edged down during the week ended Jan. 15, as the extremely cold weather hampered some production activity. On a seasonally adjusted basis, rail-freight traffic and output levels of steel, autos, trucks, electric power, coal, and lumber were down. Crude-oil refining was unchanged from the previous week, and data for paper and paperboard were unavailable. Before calculation of the four-week moving average, the index fell to 191.1, from 195.

BW production index copyright 1994 by McGraw-Hill Inc.

LEADING

Change from last week: 0%
Change from last year: 8.0%



The leading index was virtually unchanged during the week ended Jan. 15. The continued bullishness in stock prices and a one-week rally in the bond market helped to lift the index. The growth rates for materials prices and real estate loans were also positive. However, M2 growth slowed, and the number of business failures took a big jump higher. Before calculation of the four-week moving average, the index rose to 235.3, from 233.9.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/22) thous. of net tons	1,667	1,892#	-5.9
TOS (1/22) units	105,701	136,676r#	-1.2
TRUCKS (1/22) units	79,056	110,868r#	-7.2
ELECTRIC POWER (1/22) millions of kilowatt-hours	67,707	63,524#	13.8
CRUDE-OIL REFINING (1/22) thous. of bbl./day	13,292	13,482#	1.5
ALUMINUM (1/15) thous. of net tons	19,694#	18,311	9.6
PAPERBOARD (1/15) thous. of tons	NA#	NA	NA
PAPER (1/15) thous. of tons	NA#	NA	NA
WHEAT (1/15) millions of ft.	500.3#	474.4	12.2
FREIGHT (1/15) billions of ton-miles	21.0#	19.8	5.0

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFP, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (1/26)	1.10	1.11	1.24
DM (1/26)	1.75	1.74	1.59
POUND (1/26)	1.49	1.49	1.51
FRANC (1/26)	5.93	5.93	5.39
DOLLAR (1/26)	1.31	1.31	1.27
FRANC (1/26)	1.47	1.46	1.46
PESO (1/26)	3.106	3.106	3.093

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
WHEAT (1/26) \$/troy oz.	383.000	391.700	15.8
SCRAP (1/25) #1 heavy, \$/ton	139.50	139.50	40.2
STUFFS (1/24) index, 1967=100	220.0	222.0	10.0
COPPER (1/22) ¢/lb.	89.8	86.0	-12.8
ZINC (1/22) ¢/lb.	58.0	55.8	3.6
COAL (1/22) #2 hard, \$/bu	3.97	4.09	-2.7
IRON (1/22) strict low middling 1-1/16 in., ¢/lb.	65.83	64.68	19.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals & Minerals, Kansas City market, Memphis market

W data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. #=Southern Forest Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/21) S&P 500	474.31	474.19	8.9
CORPORATE BOND YIELD, Aaa (1/21)	6.92%	6.87%	-12.4
INDUSTRIAL MATERIALS PRICES (1/21)	95.2	94.9	-3.4
BUSINESS FAILURES (1/14)	322	269	-24.6
REAL ESTATE LOANS (1/12) billions	\$423.5	\$421.8r	1.9
MONEY SUPPLY, M2 (1/10) billions	\$3,515.1	\$3,518.4r	1.7
INITIAL CLAIMS, UNEMPLOYMENT (1/8) thous.	357	355	-1.4

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
RETAIL SALES (Dec.) billions	\$180.6	\$197.1	6.9
REAL GROSS WEEKLY PAY (Dec.)	\$255.99	\$255.87	0.9
IMPORTS (Nov.) millions	\$50,235	\$50,990	10.1
EXPORTS (Nov.) millions	\$40,067	\$40,092	6.0

Sources: Census Bureau, BLS, Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/10)	\$1,130.4	\$1,132.3r	9.6
BANKS' BUSINESS LOANS (1/12)	277.4	278.9r	-0.8
FREE RESERVES (1/19)	1,621	1,135r	57.7
NONFINANCIAL COMMERCIAL PAPER (1/12)	152.6	149.4	5.9

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/25)	3.04%	3.97%	2.94%
PRIME (1/26)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (1/25)	3.15	3.19	3.18
CERTIFICATES OF DEPOSIT 3-MONTH (1/26)	3.11	3.12	3.13
EURODOLLAR 3-MONTH (1/21)	3.13	3.13	3.16

Sources: Federal Reserve, First Boston

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A

ABB Asea Brown Boveri 43
A.C. Nielsen 89
Accountants on Call 8
Adobe Systems 107
Aetna Life 110
AGCO 118
Alamo Rent-A-Car 6
Aldus 107
Alex. Brown 26
Allied Products 118
Allis-Chalmers 118
Alpha-Beta 107
American Express 106
American Funds Group 36
America Online 108
Amgen 98
Ammirati & Puris 89
Anglo American 46
Apple Computer 36, 107
ARC International 107
Arrow 30
Arthur Andersen 102
AT&T 36, 108
Automatic Sprinkler 102

B

Bain Capital 34
Ballantyne 107
Bank Leumi Trust 6
Bank of Boston 102
Banque Indosuez 106
Bell Atlantic 6, 108
Bethlehem Steel 36
Bic 112
Biggs Automobile
Leasing 97
Biogen 98
Biotechnology
Investments 98
Blockbuster
Entertainment 35
BMW 92

C

Cabletel 107
CalPERS 33
Capital Cities/ABC 35
Casual Corner 33
CBS 26
Centocor 98
Cephalon 98
Chiron 98
Christian Dior 44
Chrysler 92
C.J. Lawrence 116
Claritas 89
Clark-Reliance 102
CNW
Marketing/Research 92
Coca-Cola 35
Columbia Pictures
Television 36
Comerica Bank 20
CompuServe 108

Coopers & Lybrand 92

Cor Therapeutics 98
Cox Enterprises 109
Cracker Barrel Old Country
Store 8

D

Dayton-Hudson 33
Deere 118
Deloitte & Touche 122
Delphi Internet
Services 108
Digital Compression
Technology 100
Digital Equipment 32, 110
Dillard's 30
Dillon Read 118
Dole Food 116
Dun & Bradstreet 23
DuPont 26

E

Eastman Kodak 36
Electronic Data
Systems 110
Elf Aquitaine 44
Ernst & Young 98
Exabyte 112

F

Farah 30
Fiat 118
Figgie International 102
First American
Financial 107
Flagstar 36
Foote, Cone & Belding 89
Ford 92
Fox Broadcasting 36
Fuji Photo 36

G

Gartner Group 43
Genentech 98
General Electric Capital
Auto Lease 92
Gitano 36
GM 92, 112
Goldstein, Golub &
Kessler 120
Guinness 44

H

Haggar 30
H&R Block 108, 122
Hanson PLC 107
Hesston 118
Hewlett-Packard 110
Honda 92, 97
Honeywell 29

I

IBM 8, 30, 32, 43, 108,
110
Ingram 107
Integrated Resources 6
Intel 104, 112
International Harvester 118

ITT Commercial
Finance 118

J

Jaguar 92
J.C. Penney 30
J.I. Case 118
J.P. Morgan Securities 106
Jupiter
Communications 108

K

Keene 112
KKR 36
Kloekner-Humbolt-
Deutz 118

L

L'Oréal 44
Ladenburg Thalmann 33
L.A. Gear 112
Lehman Brothers 41, 44,
106
LensCrafters 33
Levi Strauss 30
Lockheed 29
LVMH 44

M

Macy (R.H.) 33
Marine Harvest
International 107
Matsushita 36
Mayfield Fund 98
McCarter & English 112
McDonald's 35
McGraw-Hill 24
Media General 109
MedImmune 98
Mercedes-Benz 92
Mercer Management
Consulting 32
Merck 104
Merrill Lynch 30, 104
Meta Group 110
Metamor Technologies 32
M.H. Myerson 107
MicroDexterity
Systems 100
Microelectronics &
Computer Technology 100
Microsoft 108
Mitsubishi 92
MMS International 24
Moët Hennessy 44
Moody's Investors
Service 102
Motorola 36, 104
MTV 109

N

NatWest Securities 116
NCR 36
Nestlé 44
News Corp. 108
Nine West Group 33
Nippon Telegraph &
Telephone 36
Nissan 92
Nucor 36

P

Paramount
Communications 26, 35,
104

Philips 36
Phillips-Van Heusen 30
PKF Hawaii 116

Price Waterhouse 120
Procter & Gamble 33
Prodigy 108, 109
Prudential Securities 2

Q

QVC 26

R

Rainbow Technologies
Rawlings 102
Recombinant Capital
Robinson-May 6
Roche 98

S

Salomon Brothers 20,
92, 106
Sanofi 44
Seagram 26
Sears 108
S.G. Warburg Securities
Shaman
Pharmaceuticals 98
Siemens 43
SLH 118
Smith Barney 20, 107
Sony 36
Southland 6
Standard & Poor's 10
Staples 34
Strong Common Stock
Fund 33
Synergen 98

T

Tasca Lincoln/Mercury
Tele-Communications
108
Time 89
Time Warner 26, 108
Toshiba 43
Toyota 92
Toys 'R' Us 33

U

University of Illinois 10
Urbach Kahn & Wertheim
U.S. Shoe 33
U.S. West 26

V

Vallicorp Holdings 10
Van Kasper 107
VF 30
Viacom 35

W

Wal-Mart 36
Warner Brothers 26
Wells Fargo 92
Whirlpool Financial 11
White-New Idea Farm
Equipment 118
William M. Mercer 11

Y

Yamato 36

Z

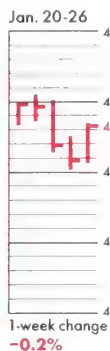
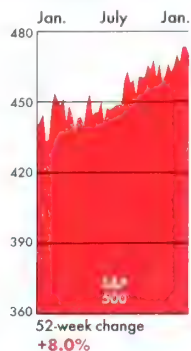
Ziff-Davis 108

Investment Figures of the Week

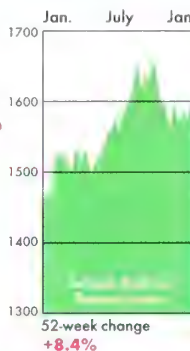
COMMENTARY

U. S. stock market climbed to highs, with the Dow Jones industrial average climbing above 400 for the first time on Jan. 21. Helped by economically sensitive stocks sustained the market, with technology leading the pack because of better-than-expected earnings. Broad-based indexes of small-cap stocks also posted gains. The blue chips cooled a bit on Jan. 25, when IBM reported disappointing earnings. Japanese stocks tumbled on Jan. 24 after details of a political-reform plan.

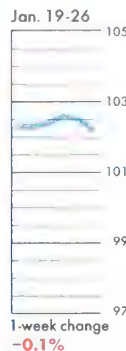
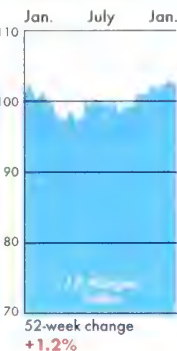
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3908.0	0.6	18.7
SIZE COMPANIES (S&P MidCap Index)	179.1	-0.4	10.4
SMALL-CAP COMPANIES (Russell 2000)	262.8	0.1	15.3
COMPANIES (Russell 3000)	273.1	-0.2	8.5

FOREIGN STOCKS	Latest	% change (local currency) Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	3436.1	-1.1	21.3
DOW JONES (NIKKEI INDEX)	19,138.2	0.5	15.9
DOW JONES (TSE COMPOSITE)	4460.3	-2.2	34.7

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.98%	3.03%	2.97%
30-YEAR TREASURY BOND YIELD	6.31%	6.30%	7.25%
S&P 500 DIVIDEND YIELD	2.57%	2.60%	2.81%
S&P 500 PRICE/EARNINGS RATIO	22.5	22.9	21.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	462.6	461.6	Positive
Stocks above 26-week moving average	56.8%	57.1%	Negative
Speculative sentiment: Put/call ratio	0.39	0.39	Neutral
Insider sentiment: Vickers sell/buy ratio	1.68	1.62	Positive

INDUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

4-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
HOSPITAL MANAGEMENT	13.3	53.9	COMMUNITY PSYCHIATRIC CENTERS	26.9	63.0	16 1/2
PAPER CONTAINERS	11.1	2.6	STONE CONTAINER	42.4	-4.7	15 1/8
POLLUTION CONTROL	10.4	-17.9	WMX TECHNOLOGIES	11.2	-22.4	29 7/8
PHARMACEUTICALS	10.1	-25.6	REEBOK INTERNATIONAL	11.9	-10.2	33
STEEL	9.3	25.0	BETHLEHEM STEEL	16.9	12.3	21 3/8

4-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
ELECTRIC POWER	-7.9	-1.0	TEXAS UTILITIES	-13.2	-9.4	38 3/8
BEVERAGE DRINKS	-7.3	-2.0	COCA-COLA	-7.9	-0.6	40 3/4
METAL AND GLASS CONTAINERS	-6.7	-3.0	BALL	-9.3	-12.8	28
SPECIALTY RETAILERS	-6.6	-5.5	TOYS 'R' US	-13.5	-6.2	36 1/8
REGIONAL TELEPHONE COMPANIES	-5.4	3.7	SOUTHWESTERN BELL	-13.4	4.6	38 1/8

MUTUAL FUNDS

MORNINGSTAR INC.

LEADERS	4-week total return	%	LAGGARDS	4-week total return	%
STUDENT SPECULATOR	14.4		LEXINGTON STRATEGIC INVESTMENTS	-9.1	
LATIN AMERICA GROWTH A	12.8		DREYFUS EDISON ELECTRIC INDEX	-5.3	
RUSSELL LYNCH TECHNOLOGY A	12.4		CAPPIELLO-RUSHMORE UTILITY INCOME	-4.6	

	52-week total return	%		52-week total return	%
STUDENT SPECULATOR	230.1		PILGRIM CORPORATE UTILITIES	-13.2	
UNITED SERVICES WORLD GOLD	118.6		STEADMAN OCEANOGRAPHIC TECHNOLOGY	-12.1	
WELLS FARGO INTERNATIONAL INVESTORS	115.9		FORUM INVESTORS STOCK	-11.8	



RELATIVE PORTFOLIOS

DRI/McGRAW-HILL

Amounts sent the present of \$10,000 invested one year ago in portfolio	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
Percentages indicate yearly total returns	\$14,186 +0.40%	\$11,965 -0.34%	\$11,616 -2.69%	\$10,974 -0.70%	\$10,210 +0.04%

Figures on this page are as of market close Wednesday, Jan. 26, 1994, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

Jan. 25. Mutual fund returns are as of Jan. 21. Relative portfolios are valued as of Jan. 25. A more detailed explanation of this page is available on request.

SURE, CUT TAXES—BUT STREAMLINE GOVERNMENT

Prop 13 redux? Tax-cut fever is beginning to sweep the country again. This time, the action is on the East Coast, led by New Jersey and New York—that's right, the King Kong of taxes, New York State!

But lest the ghosts of Arthur Laffer's supply-side 1980s cohorts start chortling once again, this round of cuts is quite different from Reagan's. The Laffer Curve promised a free lunch: \$1 of additional government revenue for every \$1 of taxes cut. Instead, it delivered budget deficits to the moon.

New Jersey Republican Governor Christine Todd Whitman and New York Democratic Governor Mario Cuomo promise something different. Jobs. Jobs. Jobs. This time, the promise of tax cuts can be realized. There is serious economic analysis to support the current round of cuts: States with low taxes clearly perform better than states with high taxes.

A new BUSINESS WEEK study shows that, since 1985, job growth in low-tax states has been 65% higher than in high-tax states (page 114). Where the combined state and local taxes exceeded 12% of personal income, the private-sector job growth amounted to about 13% on average. But where the combined burden was less than 10%, job growth hit 22%.

New York, with the heaviest tax burden of any state save Alaska, had an actual decline of 1.9% in jobs. In contrast, low-tax Arkansas, with Bill Clinton then in office as governor, had a 24.3% leap in private-sector jobs.

There is a trade-off. While cutting taxes generates jobs, it also lowers the tax haul. Faster growth does not compensate for lost government revenues. That means there is less money for education, crime prevention, and health.

That is precisely why politicians must take a second step. After cutting personal and business taxes, they must reinvent the delivery of government services to lower their costs. That means privatizing public services, deregulating, and cutting bureaucracy to save money to sustain critical social services.

So it's a two-step dance: First, cut taxes. Then, streamline government services. Politicians who learn it will be blessed by voters for years to come.

LET'S NAIL DOWN NUMBERS ON TOKYO TRADE

It is all so familiar. For 20 years, Washington and Tokyo have argued over America's trade deficit with Japan. On Feb. 11, they plan to do it again when President Clinton and Prime Minister Morihiro Hosokawa meet.

When the cold war was at its height, Washington was willing to accept the economic loss that came with the deficit—in exchange for Japan's political and military support against the Soviet Union. Without the cold war, such economic sacrifice is no longer politically acceptable in the U.S.

Neither are the reasons that Japan gives for the deficit. Tokyo has used a twofold strategy—of finger-pointing and pleading for patience—to stave off reducing the deficit. First, Tokyo told the U.S. it had no one to blame but itself. Then, federal budget deficits had to be financed by Japanese capital that, in turn, had to be generated by a big trade surplus with the U.S.

At the same time, Japan told the U.S. that the quality of its goods, especially cars, was miserable. Why would Japanese, much less Americans, want to buy them? Now, the budget deficit is under control, and Detroit's quality is world-class: *Consumer Reports*, for the first time in 10 years, rated an American car, the Dodge Intrepid, as high as any Japanese make—in fact, a tad higher. So the U.S. cleaned up its act. Japan, however, has not. In 1987, the trade deficit was \$56 billion. In 1994, it will hit \$55 billion.

Last July, President Clinton and then-Prime Minister Kiichi Miyazawa agreed on a new framework to reduce the deficit. The new goal: mutually acceptable, measurable results.

After decades of fruitless negotiation, setting numerical targets may be the only mechanism left to pry open Japanese markets to American products. It worked for semiconductors, and it can work for other goods. American corporations must try much harder to penetrate the Japanese market. But with competitive U.S. products selling everywhere else in the world, such targets should be the economic line in the sand for President Clinton at the summit.

CLINTON: READY TO DEAL ON HEALTH CARE

It was a bully-pulpit speech in the best tradition of Ronald Reagan. President Clinton's State of the Union address told the vast middle of the American public what he wanted to hear about crime, welfare, family stability, and personal responsibility.

By moving to the center, he stole the Republicans' thunder on social issues. By spotlighting local heroes, such as a New York City policeman, he took a page from Reagan's script for a dramatic TV presentation.

But the most important device Clinton borrowed from Reagan came at the heart of his speech. Just as Reagan laid out one or two very clear markers for his tax-cut package in 1981 and told Congress to fill in the details, so too did Clinton put down one simple goal for his health-care reform proposal.

After months of pushing a complex, government-dominated medical plan, Clinton sent a clear signal to Congress. The President's marker is universal access to health insurance for all Americans. Everything else is up for negotiation, including the time frame for phasing in coverage.

This is terrific news. The big cloud on the horizon—the mandate-heavy, bureaucratic health-care plan that might crush the economy—has been lifted. President Clinton prepared to declare victory as soon as lawmakers come up with a reasonable, market-oriented program that eventually covers everyone. The ball is in their court now.



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75

The Best

MUTUAL

EXTRA NEW FEATURES

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With
High
Returns

Ways
To Tap
Into
Hot
Global
Markets

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BOMBAY TRADERS: ALONG WITH OVERSEAS STOCK MARKETS, MUTUAL FUNDS WITH FOREIGN HOLDINGS ARE SOARING

Cover Story

72 THE BEST MUTUAL FUNDS

Money has been pouring into mutual funds at record rates—and their performances have more than justified the confidence. But picking a fund can be dicey, and that's where BUSINESS WEEK's Mutual Fund Scoreboard comes in. It tells you all you need to know to select a fund that suits your investment style. Ratings are adjusted for risk and laid out in easy-to-grasp tables. This year's rankings are enriched by several new features. Good picking

Top of the News

26 AND NOW, ECONOMIC PEACE

Coke, P&G, Exxon, Boeing, Kodak—the list of U.S. companies poised to set up shop in Vietnam is daunting

28 HAND OVER FIST

Corporate America's spending spree is charging the economy—and it still has lots of momentum

29 SLIP-SLIDING AWAY AT THE FED

Slow-mo nominations may keep Clinton from influencing policy soon

30 FOR GE, A TIME BOMB IN OHIO?

A wrongful-dismissal suit involving price-fixing charges nears trial

31 GO EAST, BIG BANK

BankAmerica isn't likely to stop with the Continental deal

32 AETNA'S HEAVY AX

CEO Compton is slashing thousands of jobs and two product lines

32 THE ENVELOPE, PLEASE...

As Paramount shareholders get set to vote, does Viacom have the edge?

34 FUDGING IT AT PFIZER?

The drugmaker is widely suspected of having downplayed its earnings

36 McDONNELL FLAPS ITS WINGS

Earnings are up, debt is down, and key fighter-plane orders are in hand

38 IN BUSINESS THIS WEEK

Disney's woes, Big Blue says no to Pentium, a breather for Panic, CompUSA's Halpin, GM vs. VW

International Business

42 GERMANY

How BMW is beating the slump and meeting the Japanese head-on

44 CALLING ROVER RIGHT OVER

BMW zipped in and bought the British carmaker in a daring deal

46 JAPAN

The government's stimulus package should jump-start the economy

48 CHINA

Powerful pals and sharp financial minds have Everbright booming

51 INTERNATIONAL OUTLOOK

South Korea: An unexpected ally for business

Economic Analysis

18 ECONOMIC VIEWPOINT

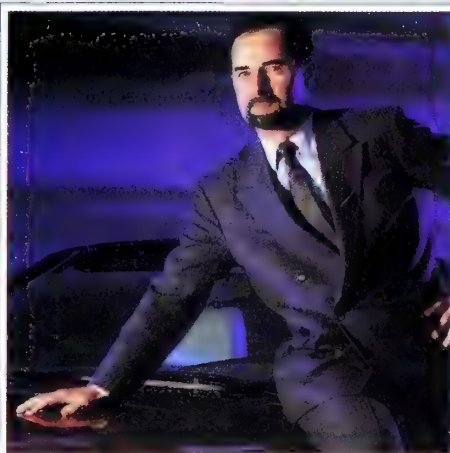
Kuttner: Moynihan's blarney on health care

20 ECONOMIC TRENDS

The payoff from computers, U.S. productivity, sunshine and stock prices, problems overseas



6 DESTINATION, VIETNAM: AS SOON AS BILL CLINTON LIFTS THE EMBARGO, CORPORATE AMERICA WILL RUSH IN. AND RIVALS, BEWARE. THE YANKS WILL COME ON STRONG



42 YOUNG BLOOD AT BMW: CEO PISCHEITSRIEDER, 45, IS AMONG THOSE SHAKING UP THE STODGY BAVARIAN CARMAKER AND HELPING SHED ITS YUPPIEMOBILE IMAGE



52 BRICKBATS FOR A BOTTOM-FISHER: A GROUP OF INVESTORS IN GREAT AMERICAN ARE FURIOUS AT CARL LINDNER, CLAIMING HE CUSHIONED HIS LOSSES AT THEIR EXPENSE

3 BUSINESS OUTLOOK

An ounce of prevention may be worth a pound of cure

Government

11 WASHINGTON OUTLOOK

Can Bill Clinton clean up the Superfund morass?

2 TOWERING BOONDOGGLES

Washington has approved \$10 billion worth of lavish office buildings and courthouses

The Corporation

2 WHITE KNIGHT, BLACK HAT?

Carl Lindner profited handsomely by "rescuing" Great American—but some investors are hot under the collar

The Arts Business

7 THE GREAT WHITE NORTH WAY

Producers Drabinsky and Mirvish make Toronto a theater mecca

People

0 WALL STREET AT LILLEHAMMER

Connor O'Brien of Merrill Lynch will compete in Olympic downhill skiing—for Estonia

Marketing

4 FRUIT JUICE, ANYONE?

Pepsi's ambitious, multibrand strategy may prove too much for the company to handle

Sports Business

71 IS THE NFL HEARING FOOTSTEPS?

The Canadian Football League is expanding its U.S. franchises

Finance

105 PLASTIC TALKS

Checks may go the way of the dodo

108 INSIDE WALL STREET

Takeover fever—the mania continues
Playing the slammer
What's pumping up Lumex?

133 INVESTMENT FIGURES OF THE WEEK



64 NOT THE CENTER OF ATTENTION: A FLURRY OF NEW PRODUCTS, RANGING FROM ICED TEA TO SPORTS DRINKS, MAY BE DIVERTING PEPSI FROM ITS FLAGSHIP COLAS

Information Processing

110 CALLING ROBO-SOFTWARE

Powerful new programs that can automate routine—and complex—tasks start rolling out of research labs

Science & Technology

115 DATA'S BIG SQUEEZE

Compressing digital signals could speed the Information Superhighway

119 DEVELOPMENTS TO WATCH

Ruptured tankers, electronic eyes, lower Information Superhighway tolls, easier-to-repair products, the Grummanite who won't let go

Personal Business

120 INSURANCE: When disasters hit
SNOWBOARDING: Winter thrills
CREDIT: A rating-agency upgrade
SMART MONEY: 401(k) plans

Features

6 UP FRONT

12 EDITOR'S MEMO

12 READERS REPORT

15 BOOKS

Werth: *The Billion-Dollar Molecule*

131 BUSINESS WEEK INDEX

132 INDEX TO COMPANIES

134 EDITORIALS

Fed 'snugging' won't spoil the party
Mutual funds need tighter rules

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER



GOLDEN PARACHUTES

WHY SCULLEY MIGHT NOT BITE APPLE

Was John Sculley, who was pushed out of Apple Computer more than three months ago, paid big money to enlist his aid in pending lawsuits against the computer maker? That's how Apple CEO Michael Spindler explained his predecessor's generous \$750,000 one-year "consulting fee"—part of a multimillion-dollar golden parachute—when an investor complained at the Cupertino (Calif.) company's annual meeting on Jan. 26. Spindler said Sculley's fee was a "goodwill" gesture to ensure his participation in pending lawsuits. Most notably: Apple's appeal of a copyright suit it lost against Microsoft and a shareholders' class action brought last July. The latter claims Apple made misleading statements about its financial health, which it denies.

But why pay the fat fee at all? Sculley is named in the shareholder suit, so he would be involved in the court case anyway. And his counsel in the copyright suit surely was exhausted during the action's five-year history.

Sculley, who earned \$1.47 million in salary and bonus at Apple in 1993, certainly enjoyed a fond farewell. In addition to the three-quarter million, he got an extra \$1 million based on years of service. That's not all: Apple bought Sculley's Lear 55 jet

for \$2.8 million. And it will buy his vacant home in tony Woodside, Calif., now listed for \$3.1 million.

Sculley isn't talking since the news that Spectrum Information Technologies, where he's now the \$1 million-per-year CEO, is being investigated by the Securities & Exchange Commission because of stock gyrations last spring (before his arrival). Spectrum, based in Manhasset, N.Y., says it expects the SEC will find no wrongdoing. *Kathy Rebello*

IMAGE-REMAKERS

A MEDIA GUNSLINGER FOR THE WORLD BANK

The World Bank, which has been getting bad press lately, has tapped an aggressive public-relations consultant to refurbish its image. Herbert Schmertz, the in-your-face former Mobil Oil spokesman, has hired on with a one-year contract that World Bank sources put at \$200,000. Schmertz, 63, won notice during the 1970s for the scathing advertorials Mobil ran in newspapers, flaying journalists and officials who knocked Big Oil.

TALK SHOW

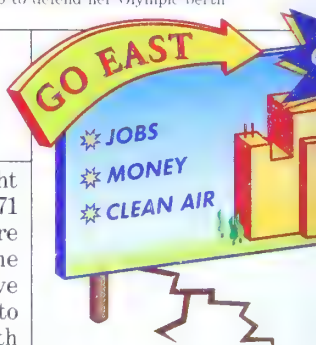
What we object to is that all Americans are presumed innocent until you are proven guilty—unless you are a great athlete.

— Nike CEO Philip Knight, on why the Beaverton (Ore.) company gave fellow Oregonian Tonya Harding \$25,000 to defend her Olympic berth

AFTERSHOCKS

CALIFORNIANS EYE TERRA THAT'S FIRMA

The earthquake has brought on the job vultures: 71 state and city governments are zooming in from around the country to a Feb. 7-8 conclave in Anaheim, Calif., hoping to lure shaken businesses with quake-free living. Some 600 Golden State outfits may attend. It's a shameless raiding party—held on the victim's soil. Only a few suitors, such as the New Mexico Economic Development Dept., openly deride California's geology. Most just stress lower taxes, etc. Hosted



by Trends 2000 of San Diego, which helps states nab jobs, the conference was scheduled before the quake, but response has surged since. Says a Kyser, chief economist at the Economic Development Council of Los Angeles, this is "graciously dancing." *Ronald G.*



SCHMERTZ: Rattling the "gentle"

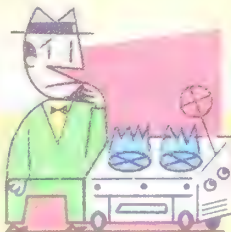
The World Bank has long styled itself as the Mother Teresa of financial institutions, providing loans to the

world's poorest nations. Lately it has caught grief for trimming back on Third World lending and for blocking development projects hindered by environmental Plus, critics slam the new addition to its Washington headquarters, now running \$100 million over budget.

And though his image-making plan isn't in place, some bank officials are already leery. "We're a general low-key place, and you've got this gung ho press-baiting aboard," says one bank senior. Schmertz says only: "The World Bank hired me to fix them." *Owen Ulbricht*

REALITY CHECK

NATURAL-GAS BOOSTERS SAY the stuff is the fuel of the future. Cleaner-burning than oil, it's prevalent in the U.S. and prices are up more than 100% in two years, making it a domestic drillers' delight. A broad alliance stretching



IN REALITY, natural gas faces formidable obstacles. While oil's share of overall U.S. energy demand has declined five points, to 40%, since 1950, two-thirds of that is in transportation. And it's likely to stay there. Easy-to-store and sustained by some 200,000 filling stations, gasoline is a very powerful incumbent

from the Sierra Club to Amoco to the White House is urging the nation's power plants, cars and trucks to convert to natural gas. One industry group, the Natural Gas Vehicle Coalition, aims to push usage to 10%, some 20 million vehicles, by 2010.

against natural gas (700 outlets). Natural-gas-powered vehicles have limited appeal: They require large pressurized fuel tanks and have a top range of only 150 miles or so per tank. And if powerful current trends continue, keeping crude prices low, natural gas' recent success with power plants will dim considerably. *Peter Burrows*

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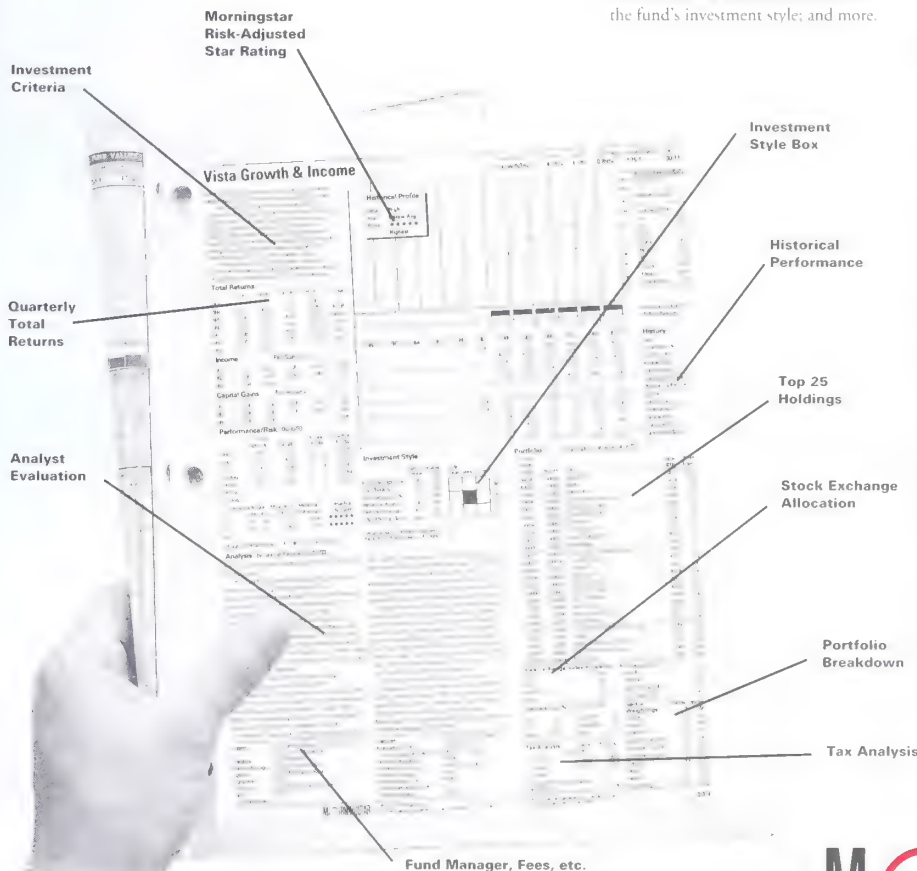
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MORNINGSTAR

Up Front

PROFIT & GLOSS

WERE THESE ORACLES BLINDED BY THE BYTES?

Computers can do lots, but they can't predict the future. Likewise, some Wall Street high-tech analysts had problems estimating fourth-quarter earnings. Though analysts came close with industry leaders such as Microsoft and IBM, they missed with a struggling trio of high-tech outfits (chart).

Look at Digital Equipment, now burdened with a move to reduced instruction-set computing (RISC) from minicomputers. The consensus of analysts, as compiled by Zacks Investment Research, had DEC, based in Maynard, Mass., with an 11¢ per-share gain. DEC, though, ended up with a 53¢

loss. The most bullish, Nomura's Sanjiv Hingorani, foresaw a 35¢ gain. He says he was preoccupied with getting married in December. Prudential Securities' Laura Canigliaro came closest (a 10¢ loss).

On Data General in Westborough, Mass., which suffers from the same woes as DEC, the consensus was a 17¢ loss—and the reality a harsher 60¢ dip. George Elling of Merrill Lynch, who called for a gain of up to 5¢, blames foreign-currency swings. Morgan Stanley's Steven Milunovich called it closest: a 29¢ loss. And Borland International, a Scotts Valley (Calif.) software maker late getting into windows applications, surprised analysts (consensus: a 13¢ gain) with a meager 2¢. Paul Johnson of First Boston (an 18¢ gain) says the gap "isn't all that significant." Montgomery Securities' Betty Lyter came closest: zero earnings. □

ERROR!

1993 fourth-quarter earnings-per-share estimates for some high-tech companies didn't compute:

BORLAND
EST. 13¢ ACTUAL 2¢

ERROR: 11¢

DATA GENERAL
EST. 17¢ ACTUAL -60¢

ERROR: 43¢

DEC
EST. 11¢ ACTUAL -53¢

ERROR: 64¢

DATA: ZACKS INVESTMENT RESEARCH INC.

IN THE ROUGH

CELEBRITY FAIRWAYS ON THE CHEAP

Tour 18, a Humble (Tex.) company, created a golf course outside Houston consisting of brazen replicas of the nation's most famous golf holes. Now, it's set to do it again, with plans for Dallas,

Tour 18, whose weekend greens fees are \$75 per round, vs. \$225 at Pebble Beach.

But the company's populist zeal has hit into the rough: Members of the elite clubs whose holes it has cloned are steamed. Pebble Beach, the legendary course on the California coastline, is suing because its celebrated dogleg 14th hole is aped by Tour 18. Also eyeing legal action is Harbour Town Golf Links in Hilton Head, S.C., over the duplication of its storied red-and-white lighthouse hole. Tour 18 says it won't copy any more Pebble Beach holes but will keep replicating others. *Peter Burrows*



TEED OFF: The usual 14th hole at Pebble Beach

Atlanta, and four other cities by 1997. Customers "feel like a member of a prestigious country club," says Barron Jacobsen, marketing director of

FOOTNOTES

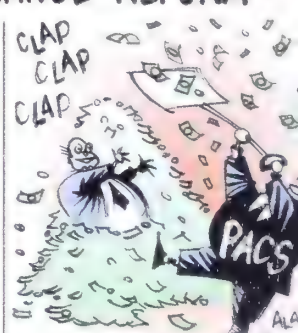
Inflation rate in comparable post-recession years: 1983, 3.8%, and 1984, 4.0%. 1992, 3.0%, and 1993, 2.7%

DRAWN AND QUARTERED

CAMPAIGN FINANCE REFORM



JANUARY:
CLINTON VOWS ACTION



OCTOBER:
CAMPAIGN HEATS UP

UNREAL ESTATE

DON'T BET THE HOUSE? SAYS WHO?

Only in Hollywood could someone turn real estate into a game show. Entertainment lawyer Scott Roth, after a dismal year in Southern California's lousy housing market without offers for his \$450,000, three-bedroom house, is staging a contest with the Hollywood Hills home as top prize. For a \$75 entry fee, contestants need to answer 25 offbeat questions—some as simple as how long was the ocean tour in Gilligan's Island supposed to be. If there's a tie, he will hold runoff quizzes among top finishers. "I call it *Jeopardy!* with an attitude," he says.



75% of the take to the winner or return the bucks. Roth, who started the contest just before the earthquake, has 1,000 tries so far. *Ronald Green*

THE BIG PICTURE

HOW WE'RE SPENDING THE PEACE DIVIDEND

Remember when we thought a host of domestic programs was going to get all the money we'd save on defense with the end of the cold war? Well, so far, it has all gone pretty much to one place. Turns out, the choice wasn't between guns and butter, but between guns and gauze pads.



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ticketing, lodging; we even helped create the first competitive American-made bobsled in 38 years. All in all, this winter in Lillehammer, nothing will cover the Games more thoroughly than IBM. With the possible exception of...the white stuff.



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EDITOR'S MEMO

THE BEST JUST GOT BETTER

The interest in mutual funds has expanded immensely since BUSINESS WEEK introduced the Mutual Fund Scoreboard in 1986. The amount of money invested in mutual funds has increased fourfold, to \$2 trillion. The number of funds we cover in the three consecutive Scoreboard issues of the magazine has risen to 1,560, from 385 eight years ago. Under the savvy guidance of Associate Editor Jeffrey M. Laderman, our Scoreboard editions have become more popular as well. Our Scoreboard, with help from Morningstar Inc., was among the first to rate funds systematically, not only by their increase in value but also by how much risk they took to achieve those increases. Our approach has won acclaim by mutual-fund professionals as well as readers. Last year, *Securities Industry Management* magazine rated our Scoreboard the highest against competition that included a variety of business and finance publications. In particular, BUSINESS WEEK received "high marks for being an innovator."

We've got more innovations for you this year. With tax rates up, people need more information on how taxes affect their investments. So we now calculate not only pretax but also after-tax returns on equity mutual funds. Another important tax implication is the amount of stock appreciation, or capital

gains, in the fund's portfolio. An investor might get hit with a tax liability if the fund takes the gains by selling stock. A new column in our Scoreboard measures these yet untaxed gains.

These aren't the only new features. We go beyond typical growth and income descriptions of a fund's objective to characterize funds by their portfolios. Do they emphasize large or small-capitalization stocks? Do they buy hot growth companies with high price-earnings ratios or out-of-favor outfits with low p-es? The findings can help investors decide whether the fund's style is also theirs.

This is only the beginning of this year's review of mutual funds. In the weeks to come, we will be looking at bond funds and closed-end funds. If you would like to sort through all this by computer, you can get the BUSINESS WEEK Mutual Fund Scoreboard on diskette by calling 1-800-553-3571. This spring, watch for our annual BUSINESS WEEK Guide to Mutual Funds, which compiles the various scoreboards into one book, with basic mutual-fund investing guidelines. Get your start sizing up the funds on page 72.

Stephen B. Shepard
Editor-in-chief

A FEW ANXIETIES ABOUT CLINTON'S SECURITY BLANKET

As they enter "The second year" (Cover Story, Jan. 24), President Clinton and his staff are gloating over their contribution to America's improved economic health. They point to lower interest rates and higher productivity as evidence of their deft management.

Unfortunately, this claim has the same credibility as George Bush's taking credit for the fall of the Soviet Union. Such

accomplishments take a lot more time and pain than any Administration can achieve in four years—let alone one. Perhaps an examination of what they did do to screw things up might be more beneficial for his Administration's, and the economy's, long-term prospects.

Robert Elk
Westland, Mich.

Please allow me to offer a European footnote to your article. I think Clinton (after a rather confused and happy first 100 days in office) has turned

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t to be a much better President than most Europeans (and, I suspect, Americans) ever thought he would be. Clinton developed a pragmatic foreign policy, both politically (*vis-à-vis* Europe, NATO, and Russia) and economically (NAFTA). At the second year will be crucial for his chances of getting reelected. "Clintonomics II," i.e., a combination of competitiveness in the world economy and economic security at home, won't work because the two objectives are almost mutually exclusive.

Karl H. Pagac
London

on the cover portrait of Bill Clinton, is it my imagination, or do I see a longer-than-normal resemblance to Jimmy Carter? An ominous portent?

Claire J. Davis
Columbia, S. C.

From the expression on his face, we can see the determination in the man who is destined to change the history of the world, whether we like it or not.

Richard Seet
Singapore

R. ROBERTS, YOU'RE BASED ON SHAWMUT

The recent column by Paul Craig Roberts entitled "The Feds' sham settlement with Shawmut" (Economic Viewpoint, Jan. 24) was not up to the author's usual standards. Although I agree with Roberts' main premise, that statistics should be used only with great care in discrimination issues, some of his assertions were erroneous. At least three points need to be addressed.

First, the Federal Reserve referred Shawmut National Corp. to the Justice Dept. for further investigation, but the Federal Reserve was not a party to the suit brought by the Justice Dept. In December, 1992, the Federal Reserve Board ruled that there was reason to believe that a pattern or practice of lending discrimination existed at Shawmut. Under federal law, such a pattern or practice does not require any specific complaints about discrimination from potential borrowers, only that the available information indicate unequal treatment. The Federal Reserve Bank of Boston had conducted a useful statistical research into lending in the Boston area using lending institutions' own statistics and concluded such unequal treatment existed at Shawmut. Second, the claim that I "organized a hit on Shawmut" does not comport with the facts. On Nov. 15, 1993, Shawmut failed in its attempt to get approval from the Federal Reserve Board to acquire the New Dartmouth Bank of Manchester, N. H., for two explicit rea-



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Readers Report

sons: the high rate of inaccurate data provided in Shawmut's Home Mortgage Disclosure Act filing and the inability of Shawmut to show that it had programs in place and working to ensure compliance with the Equal Credit Opportunity Act. In no way was the Shawmut disposition the result of any orchestration on my part or anyone else's. The case came before the board and was voted on. Period.

Third, Roberts' assertion that Shawmut's \$1 million settlement with the Justice Dept. "was a bribe so that the bank would remove barriers it had erected to the bank's acquisition plans" ignores both the stated reasons for Shawmut's rejection and that the Federal Reserve Board was not a party to the Shawmut settlement. The Federal Reserve was not involved in any of the settlement decisions, and the opinions of the government in the Shawmut case did not suggest in any way that a settlement was a precondition for board approval of Shawmut acquisition applications.

Lawrence B. Lindsey, Governor
Federal Reserve Board
Washington

DUSTING OFF THE FACTS ABOUT CEMENT KILNS

Your article on Dean L. Buntrock's efforts to revitalize WMX Technologies Inc. ("Cleaning up after Waste Management," The Corporation, Jan. 1994) may accurately reflect the company's strategy of a great entrepreneur, but it misrepresents the facts on cement kilns that burn hazardous waste as supplemental fuel.

Cement kilns are, indeed, the least competitive of commercial hazardous waste incinerators like those WMX operates. But cement kilns must comply with environmental rules that are often more stringent than those for incinerators.

Regarding cement-kiln dust (you correctly labeled it ash), your assertion that it is unregulated is wrong. Cement kiln operators are subject to numerous state and local cement-kiln-dust standards. Further, cement kilns that recover energy from hazardous waste are required by federal law to test the dust to determine whether the dust is different from nonwaste-burning kiln ash.

Richard C. Creighton
Executive Director
Cement Kiln Recycling Coalition
Washington

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THE BILLION-DOLLAR MOLECULE: ONE COMPANY'S QUEST FOR THE PERFECT DRUG

by Barry Werth
Simon & Schuster • 445pp • \$25

THE DARK SOUL OF A NEW DRUG

In the biotechnology industry's frenzied hunt for new drugs, few stories are more compelling than that of shua Boger. The brilliant young chemist quit a top job at Merck & Co. in 1989, complaining that the world's most successful pharmaceutical corporation had grown too big and bureaucratic to develop new drugs rapidly. Even though he had a good chance someday to head Merck's research labs—one of the most prestigious posts in science—Boger left to start Vertex Pharmaceuticals Inc., vowing to redefine how drugs are made and to beat Merck at its own game.

The Billion-Dollar Molecule: One Company's Quest for the Perfect Drug is the inside story of Boger, Vertex, and the human drama surrounding the creation of a promising new company. Barry Werth, a freelance writer who spent four years as a consultant on the wall at Vertex, wound up with a riveting tale that has more in common with a John Grisham thriller than with any tomes on modern science. The book sheds light not just on Vertex but on the entire biotech

industry and the competitive spirit that drives hundreds of small companies trying to develop new drugs.

The first goal Boger sets for Vertex is to create an improved version of an experimental drug that suppresses the immune system. The drug, discovered by Japan's Fujisawa Pharmaceuticals Co. and called FK-506, has the potential to greatly reduce organ rejection in transplant patients—and to compete with the only similar drug, cyclosporine. Boger thinks he can increase FK-506's potency and reduce its side effects by using an unproven new molecule known as rational drug design. Instead of improving the drug by combining it with other compounds in a process of trial and error, as he might have done at Merck, he will use supercomputers to build a new drug from scratch, atom by atom. He raises money

from venture capitalists, hires a team of top researchers, and sets up shop in a ramshackle lab near his alma mater, Harvard University.

But competitors muddy his plans. They beat Vertex to key discoveries, sending its employees on an intellectual and emotional roller-coaster ride. Vertex scientists go through episodes of anger and self-doubt as they feel themselves falling behind. They have screaming matches, fling chairs at walls, and get rip-roaring drunk. Boger, who is both chief scientist and CEO, spends

Professor Stuart Schreiber, which Werth explores at length. Schreiber, a leading organic chemist and authority on FK-506, is initially on Vertex' scientific advisory board. But it turns out he also has a research deal with a competitor, Roche Holdings Ltd. Although he's guilty of nothing illegal or unethical, Schreiber winds up being kicked out of Vertex and despised by Boger. Vertex' staff remains profoundly fearful that Schreiber could hurt their chances of being the first to develop a drug from FK-506.

Boger doesn't hide his anger or jealousy. At one point, when *Nature* magazine publishes an article by Vertex scientists on the same day as another journal publishes a similar article by Schreiber, Boger says: "I want to rub his nose in the dirt and step on his head. But I'll settle [for a tie]."

Boger, an arrogant and self-confident scientist, spends a lot of time plotting ways to beat the competition. And while

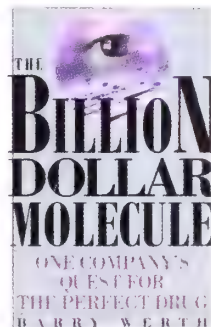
Werth's accounts of his calculating approach are engaging, the author is not entirely objective. Aside from Schreiber, his primary sources are Boger, the Vertex staff, and a handful of others who provide background. He would have done well to seek more sources.

Werth reports that Merck beat Vertex in developing a potential AIDS drug—but doesn't mention that several other companies have developed similar compounds. There's also a dearth of reporting on the fate of FK-506, which is now up for ap-

proval by the Food and Drug Administration. At the end of the book, Boger suddenly decides to change course and develop the drug for an entirely new purpose: combating multidrug resistance in cancer patients receiving chemotherapy. Did other companies give up as well? Was Boger admitting defeat? Werth could have finished on a stronger note if he had tried to answer the central question raised by Boger's decision to start Vertex: Has the company, with its use of rational drug design, been any more successful than Merck in developing drugs?

The book's ending comes as no surprise to anyone who has invested in Vertex stock: Even though the company is forging ahead, it has yet to develop a billion-dollar molecule. Still, Werth's narrative is a great read and offers unusual insight into a fledgling industry. Anyone interested in biotech or involved in a

A riveting inside account of the ego and intrigue involved in the building of a biotech startup

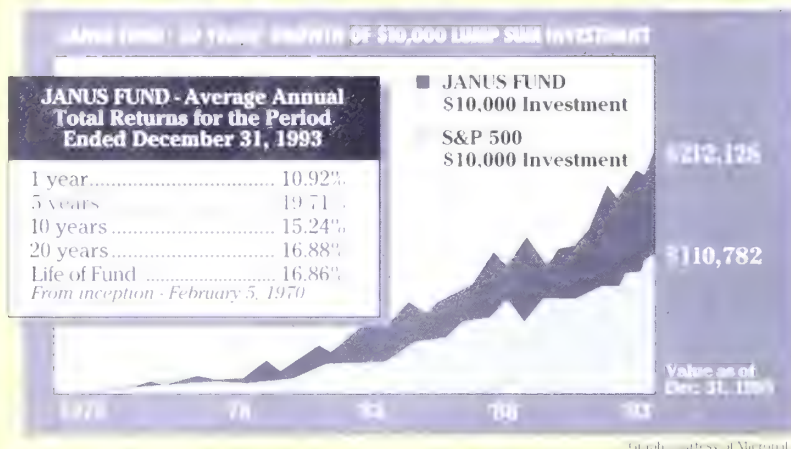


much of his time raising money and setting up joint ventures. Throughout, he is the voice of reason, formulating strategy and soothing sore feelings among his highly competitive, ego-driven staff.

Werth's nearly unlimited access to Vertex enables him to expose the ignominious side of the scientific world. There are arguments about whose names will go on scientific papers, and in what order. Biologists battle with chemists over failed experiments or slow-to-arrive results. Boger decides to launch a project on AIDS, not because he believes Vertex has a competitive advantage but because he knows it will entice investors. And there's a near-mutiny when the company's initial stock offering flounders and the value of employee options plummets.

Most remarkable, in terms of contentious relationships, is Boger's personal and professional rivalry with Harvard

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Books

startup of any kind should enjoy reading the story of Joshua Boger and his ventures in what Werth calls the "bi-sport of big-time science."

BY GEOFFREY SMITH

Smith reports on biotechnology from Boston.

BOOK BRIEFS

OBJECTS OF DESIRE

By Thatcher Freund

Pantheon • 291pp • \$24

ANTIQUE MYSTIQUE

It's obviously not mere inflation that turns a 1759 Chippendale card table then valued at 50¢, into something that fetches \$1 million at auction. So how, as some pieces of furniture pass from hand to hand, they acquire a mystique. Money transforms items into icons.

In *Objects of Desire: The Lives of Antiques and Those Who Pursue Them*, Thatcher Freund traces the journey of three 18th century objects put up for sale in January, 1991: a blue blarney chest priced at \$245,000; a Federal-style inlaid sofa table valued at \$100,000; the Chippendale card table, which languished in a basement for 60 years.

Along the way, Freund introduces a vast cast of dealers and collectors. He is at his best giving capsule histories: for example, dealer Israel Sack, who started out making fakes and went on to "invent the code of beauty for American furniture," and Joseph Hirshorn, a stocks-and-uranium magnate, who wrote below: "How much is this? How much that? How much for the whole lot?" buy 40 or 50 things at once.

The author reveals trade practices casual collectors may not know of. He tells how some dealers distract buyers at auctions to keep a price down, or as others try to uphold their reputations by bidding high on pieces they once sold. He explains why owners, by certain collectors or dealers adds to a piece's allure. And he relates amusing lore—how, for example, Albert Saunders' classic *Fine Points of Furniture*, known as the *Good, Better, Best* book because it offers examples of each for various furniture pieces, is snidely referred to as *Good, Better, and In Stock* by the trade.

Objects of Desire has faults: Its style can be tedious, and when there's a gap in history, Freund conjectures. Remarkably, aside from images on the jacket, there are no pictures of the objects. Still, like a well-worn antique exemplar, its inexplicable hold on a collector, the book manages to charm.

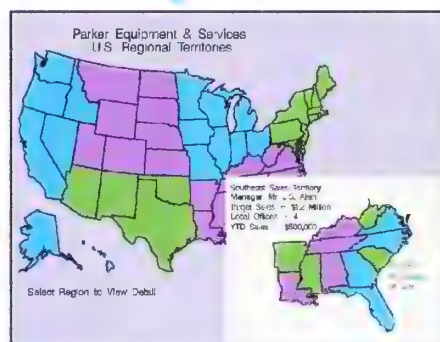
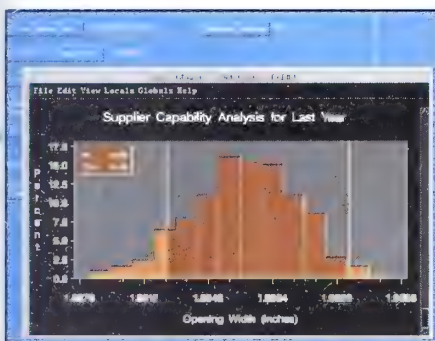
BY JUDITH H. DOBRZYNSKI

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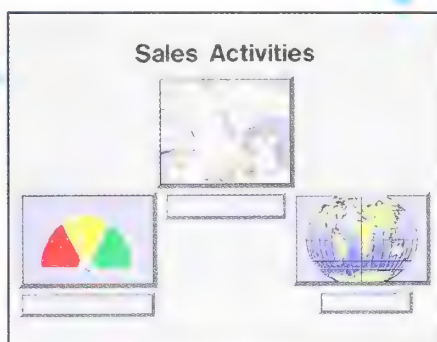


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PAT MOYNIHAN'S BLARNEY ON HEALTH CARE

BY ROBERT KUTTNER



Costs aren't spiraling because of the welfare system but because of an insane network of third-party payers and misbegotten notions of efficiency

Contrary to Senator Daniel Patrick Moynihan and the Republican National Committee, there really is a health-care crisis. The GOP believes that government-mandated health coverage would be a cure worse than the disease. Moynihan, the Senate Finance Committee chairman and a Democrat, presents a different, more subtle argument.

According to Moynihan, the supposed health crisis is really a social crisis. Social pathologies such as drug abuse, teen pregnancy, and family breakup have nothing to do with flaws in the medical system, but they nonetheless show up as medical costs. Many other health problems reflect diet, lack of exercise, self-inflicted damage from smoking and drinking, and gross income inequality—again, issues that are social rather than medical. Also, an aging population raises medical costs.

Finally, argues Moynihan, health care has a bad case of "cost disease" because health care is mostly a service and thus its wages keep outstripping its productivity. This is the impact of "Baumol's Law," a subject that I addressed a few columns ago (BW—Nov. 15, 1993). Professor William J. Baumol contends that real costs in services tend to rise relentlessly since real productivity in the services is stagnant.

NO CHECKS. Moynihan surely has a point about the social costs of health-care inflation. And he is at least partly right about Baumol's law. Even so, that hardly exhausts the causes of health-care inflation. In truth, our current health system is inefficient and prone to inflation, quite apart from Moynihan's issues, because of the way we organize and pay for it.

To begin with, most health procedures are reimbursed item by item and paid by third parties—insurance companies or government. This gives patients little incentive to hold down costs, while hospitals and doctors have every incentive to maximize them. In response, our fragmented system sets up futile games of cops and robbers. Many providers try to maximize their cost base (and hence their reimbursements) by purchasing very expensive equipment or complicating treatments. Insurers and government reviewers respond by second-guessing health professionals. All of this is staggeringly expensive.

In addition, insurance companies try to restrain costs by discriminating against people likely to get sick. This adds yet another layer of private bureaucrats who are unnecessary in a universal system where everybody is automatically covered. There are no underwriting or marketing costs in, say, Medicare. Our system also spends tens of billions of dollars yearly processing claims—costs that do not exist in

a universal system where everyone is covered and doctors are paid a salary and hospitals get a fixed budget. Finally, the fact that some people are not insured at all leads many to be treated in expensive venues such as emergency rooms or to delay care until they are far sicker and more costly to treat.

DIVERTED ENERGY. Doctors and nurses spend ever more time filling out forms or arguing with utilization reviewers. Hospital executives spend ever more time jousting with the containment cops. The ironic result is less money available for actual care. In the end, so much overhead is piled onto every hospital bed that insurance companies cannot afford to let hospitals treat sick people. If the system attempts to improve "efficiency" by throwing people out only hours after surgery or by looking for preexisting conditions as other excuses to deny coverage.

This form of cost-inflation and care-cutting has nothing whatever to do with Baumol's law or with an aging population or with pregnancies. It is the product of an insane system of insurance and financing that is crying out for reform. How can anyone as sane as Moynihan say this is not a crisis?

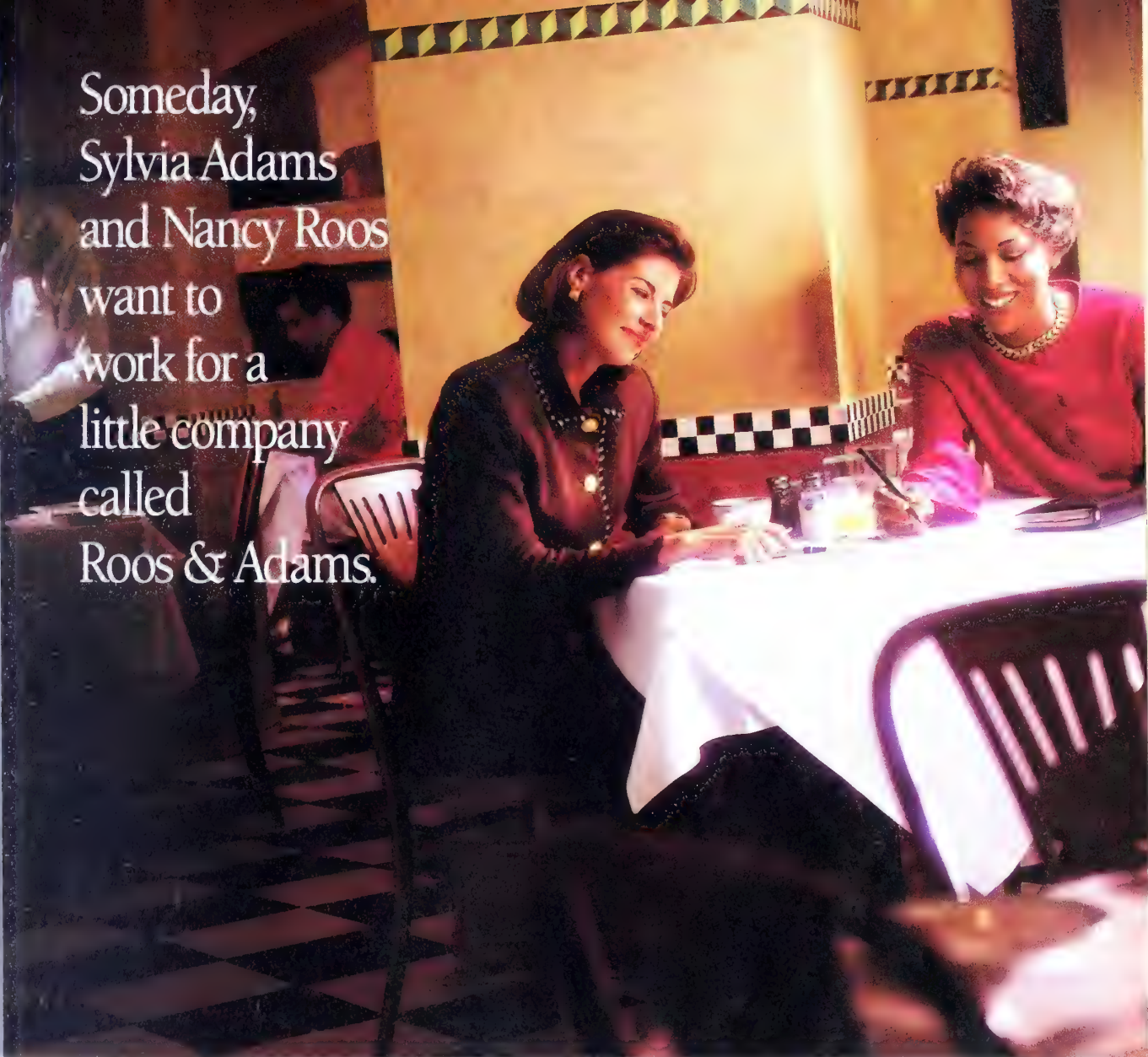
The senator is certainly right that society could cut its medical costs if it reformed health care. He is right that we would be healthier if we smoked less, exercised more, and had a narrower gap between extremes of wealth and poverty. He is partly right about Baumol's law—nursing care, for example, does come more expensive over time. Yet many medical technologies, such as earlier detection, less invasive surgery, and miracle drugs, raise productivity and hence lower costs.

Surely we could make progress on Moynihan's social fronts but still address the anomalies in the way we organize and finance the health system. Universal coverage would address two of Moynihan's other valid concerns. People would no longer stay on welfare in order to get Medicaid. And universal coverage—either through the Clinton plan or a single-payer system—would, by its nature, place greater emphasis on prevention.

The Clinton Administration recently made welfare reform the head of the legislative queue, in deference to Moynihan. Lately, the senator has been less obstreperous on the health issue. It's not clear whether he is having second thoughts or whether he and the Clintons have struck a deal. Intellectually, Moynihan is a deft provocateur, but his dismissal of the health crisis is pure misdirection. The ills of the health system are multiple and the cure will be equally complex.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE

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Economic Trends

BY GENE KORETZ

COMPUTERS MAY REALLY BE PAYING OFF...

Despite U.S. business' massive investment in information technology, economists have had a hard time proving that it has really paid off. For one thing, productivity in the service sector, which accounts for some 80% of information technology purchases, has lagged badly. And some researchers argue that the effective use of computers involves a long learning curve whose payoff may still be years away.

Economist Frank Lichtenberg of the Columbia Business School thinks such conclusions are based on flawed measures of service-sector productivity. In a new study, he looks at how investment

startling results, Lichtenberg points to the experience of one Baby Bell that decided to automate its handling of customer-service inquiries. After investing in new minicomputers and hiring nine programmers and systems personnel, the telecommunications company found it was able to lay off some 75 service representatives.

...AND THEY'RE GIVING THE U.S. A NICE COMPETITIVE EDGE

If findings such as Lichtenberg's are accurate, the U.S. should be in the catbird seat once the global economy enters the broad cyclical expansion expected later this year and in 1995. For as economists Bruce Steinberg and William Sterling of Merrill Lynch & Co. observe, U.S. companies are far ahead of their European and Japanese rivals, not only in the radical restructuring inspired by heightened global competition but also in the development and deployment of information technology.

A McKinsey & Co. study, for example, found that in 1990, the U.S. had a strong productivity lead over Europe and Japan in manufacturing and services—a lead undoubtedly reinforced by continuing restructuring and heavy investment in computers. Recent surveys indicate that both U.S. businesses and the public make far greater use of information technology than do their counterparts overseas (chart).

The results are apparent in economic data. Steinberg notes that over the past decade, unit labor costs in the U.S. rose less rapidly than in Japan and Germany, even when measured in local currency terms. And U.S. capital-goods prices have also been falling faster, reflecting greater U.S. investment in computers.

In microchips, digital technology, and computer software, American companies now dominate world markets. Indeed, say Steinberg and Sterling, its comparative advantage in technology will probably allow the U.S. to remain the low-cost producer among industrial nations, even if the dollar appreciates. Meanwhile, the two economists point out that regulatory and bureaucratic roadblocks are likely to leave Europe and Japan far behind, as the U.S. moves rapidly forward to construct an Information Superhighway in the decade ahead.

In the late 1980s, note Steinberg and Sterling, business-equipment investment in Japan and Germany ran as high as 20% and 9% of gross domestic product, respectively, compared with only 7% in

the U.S.—a difference that sparks widespread concern. If the Merrill Lynch economists are correct, America's stronger but more focused investment in information technology will soon begin to pay substantial dividends.

WHY INVESTORS SHOULD WATCH THE WEATHER CHANNEL

When the sun shines on Wall Street, traders and investors in the area grow more optimistic and tend to bid up stock prices. That's the conclusion of a study by financial economist Edward M. Saunders Jr. of the University of Massachusetts that appears in the current issue of the *American Economic Review*.

In an analysis of daily weather reports for New York City and the movements of the Dow Jones industrial average from 1927 through 1989 and stock prices on the principal stock exchange from 1962 through 1989, Saunders found that very sunny weather and too cloudy weather clearly affected stock prices. That is, on average, stock prices were stronger on sunny days than on cloudy days, and the frequency of index upticks was higher.

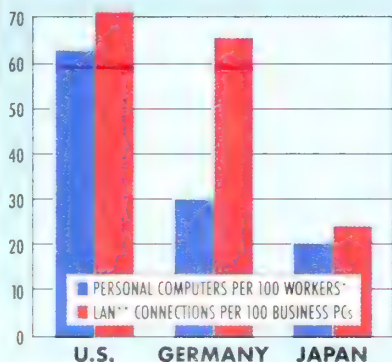
Saunders observes that the weather effect diminished in the 1980s, perhaps because of the advent of indexed futures trading in Chicago and growing foreign influences on security prices. All other factors being equal, a sunny day on Wall Street still seems like a good day to buy stocks.

HOW U.S. STRENGTH CAN SOMETIMES IMPED RECOVERY OVERSEAS

Ideally, the surging U.S. economy should help stimulate a European recovery. But over the short run, economist William V. Sullivan Jr. of Dean Witter Reynolds Inc., it may actually be acting as a depressant.

The explanation lies in the current markets. In recent months, a sharp surge in U.S. economic growth and upward pressure on domestic interest rates have caused the dollar to strengthen almost 9.5% against the German mark, sparking fears of a rise in German inflation. As a result, the Bundesbank may well decide to delay cutting interest rates further. And such a decision, warns Sullivan, would tend to muddy a European recovery.

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in information-systems (IS) technology and personnel affected the production of several hundred manufacturing and service companies in recent years.

Lichtenberg's findings, based on the relationship of individual companies' use of IS equipment and labor to their output, suggest that such technology investments have been anything but ill-conceived. While they account for only about 10% of labor costs and 10% to 15% of total capital expenditures, computer equipment and employment jointly contribute some 21% of the output of the companies studied. Although IS personnel represent only 3% or so of the work forces of the companies studied and are paid two to three times as much as other workers, the average IS employee is six times more productive than are non-IS co-workers.

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Financial Services

AN OUNCE OF PREVENTION MAY BE WORTH A POUND OF CURE

Federal Reserve Board Chairman Alan Greenspan wants to vaccinate the economy against inflation. In his Jan. 31 testimony on Capitol Hill, Greenspan suggested that the Fed is seriously considering raising interest rates in an effort to thwart any new inflationary pressures. His argument: A shot now could avoid the need for stronger medicine later.

To be sure, inflation is nowhere in sight. But unlike the strategies of past Fed chiefs, Greenspan's foe right now is inflation. His battle is with inflation expectations, which are hard to remove after they become ingrained in economic thinking. Because these expectations are an important component of long-term interest rates, efforts to reduce them will also keep long rates down. So in a perverse sense, higher short-term rates now will help to prolong the business expansion.

It's a compelling argument. Long rates plunged in 1993, mainly because deficit reduction eased the bond market's long-held fears that big deficits would fuel inflation. As Greenspan pointed out, significant inflation expectations are still embodied in bond yields, meaning that rates are higher than current inflation can justify. So more progress on reducing expecta-

tions will allow long rates to decline further. The contribution of lower long-term rates to economic growth was dramatic in the report on fourth-quarter real domestic product. Real GDP grew at a sizzling 5.9% annual rate at the end of 1993, while fourth-quarter inflation, measured by the GDP fixed-weight price index, rose a tame 2.2% annual rate.

Growth was powered by gains in the rate-sensitive sectors, including housing, business investment—especially in equipment—and consumer spending for durable goods (chart). During the past year, those three sectors accounted for 93% of the economy's growth.

IS A TIGHT TAP IN THE RAKES?
The Fed's policy committee meets on Feb. 3-4 to determine the appropriate time to begin tightening up. An outright rate hike before Greenspan's Humphrey-Hawkins testimony on Feb. 22, when the chairman defends the impact of monetary policy before Congress, could be particularly tricky, but given the tone of Greenspan's re-

marks, it cannot be ruled out. One good bet is that the Fed will at least officially slant policy toward tightening.

When the Fed does act, the most expected move is a quarter-point hike, to 3¼%, in the federal-funds rate, the Fed-controlled anchor for short rates. But several Fed watchers do not rule out the possibility of a half-point hike, combined with a half-point boost in the discount rate, to 3½%. The discount rate is largely symbolic, but highly visible as a policy barometer. Such a move would have a big impact on inflationary expectations by strongly signaling the Fed's vigilance against inflation.

The timing of a rate hike is further clouded by the unexpected resignation on Feb. 1 of Fed Vice-Chairman David W. Mullins Jr., who will not attend the policy meeting. Ditto Governor Wayne D. Angell, whose term is up. The bond market viewed both as inflation-conscious, and it sold off sharply on Mullins' announcement, fearing that President Clinton's yet-to-be nominated appointees would be less inclined to worry about inflation (page 29).

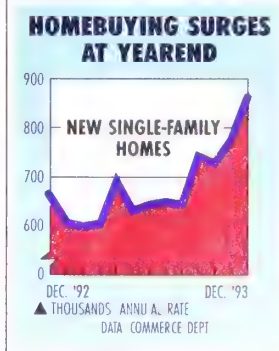
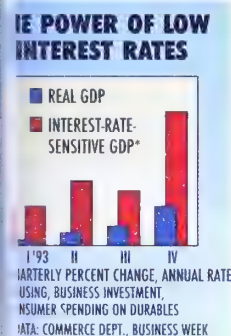
THE ECONOMY CRUISES INTO 1994

Undoubtedly, the economy's strength, combined with the Fed's accommodative policy of the past 1½ years, will factor into the central bank's deliberations. The federal-funds rate, after adjusting for inflation, is "abnormally low," in Greenspan's words. He said this policy was a deliberate attempt to allow businesses and consumers to repair their highly leveraged balance sheets.

But now, that process is well advanced. The progress is especially evident in the new aggressiveness in bank lending. Since April, 1993, bank loans have exploded, growing at a 6% annual rate, after no growth in the previous two years.

Moreover, much of the economy's fourth-quarter momentum is carrying into 1994. In December, construction outlays surged, while new-home sales soared to an eight-year high (chart). Durable-goods orders rose 2.2%, as capital-goods shipments jumped. And personal income posted another healthy gain. All this suggests further increases in housing, equipment investment, and consumer spending.

Continued strength was also the message from the index of leading indicators, which rose 0.7% in December, the fifth straight monthly advance. Eight of the 11 indica-



Business Outlook

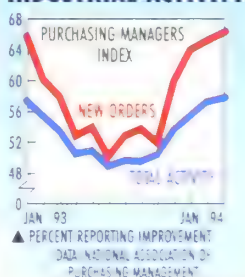
tors contributed to the gain, led by rising consumer expectations, a pickup in the growth of materials prices, and fewer new jobless claims.

The manufacturing sector remained lively in January, according to the National Association of Purchasing Management. The NAPM's index of industrial activity rose to 57.7% last month, up from 57.1% in December, and new orders kept coming in. The orders index jumped to the highest level in 10 years (chart). The purchasers also reported a considerable increase in industrial prices, but it remains to be seen if those hikes will stick.

TWO KEY SECTORS WILL KEEP RISING

If successful, Greenspan's long-rate therapy will be especially helpful in two crucial areas: consumers and construction. Consumer spending on durable goods soared at a 14.4% annual rate last quarter. The housing boom boosted demand for appliances and furniture, and low rates made financing big-ticket items attractive.

RIISING ORDERS FUEL INDUSTRIAL ACTIVITY



checks. And many consumers shifted their spending from buying appliances to turning up the thermostat. Still, even if spending fell last month, it ended 1993 at such a high level that the January number should be well above the fourth-quarter average.

Of course, many households will feel an impact from a Fed tightening. Homeowners with adjustable-rate mort-

gages may see their rates rise for the first time in years. However, interest income—a casualty of the past rate cuts—may pick up. And continued low rates will enable more people to buy homes.

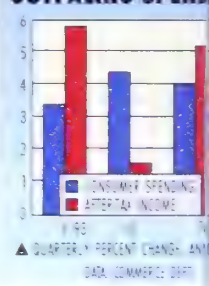
Home sales were very strong in December, especially the Midwest. New single-family homes sold at an 862 annual rate, 11.4% above the November level. That left builders with fewer homes to show. At the December sales rate, the inventory of unsold houses slipped to a months' supply, the lowest since July, 1971.

House-hunters were out in January as well, reports the National Association of Home Builders. Despite the weather, buyer traffic was good last month, and sales of single-family homes kept pace with their robust fourth-quarter level. Increased home buying means another good year for residential construction, which surged at a 31.7% clip in the fourth quarter.

Other construction sectors are also showing more life. Spending on all types of buildings has risen for six straight months, including an unexpectedly strong 2.6% advance in December. Commercial real estate is finally picking back. Spending on nonresidential buildings has increased for five consecutive months and now stands 14% above its year-ago level. And rebuilding from the earthquake as well as ice-related road repairs will lift spending on government projects.

Clearly, the economy's broad strength has not been unnoticed by the Fed. And given the new momentum, Greenspan is on the lookout for the classic symptoms of inflation, such as tight labor markets and shortages of production capacity. That's why he would prefer to practice a little preventive medicine now, rather than whip out a spoonful of castor oil later on.

INCOME REBOUNDED OUTPACING SPENDING



THE WEEK AHEAD

INSTALLMENT CREDIT

Monday, Feb. 7

Consumers probably added about \$6.9 billion in new debt in December, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. That would be the same hefty increase that was posted in November. Auto financing and revolving debt probably increased sharply. Installment credit has surged in the second half of 1993, growing by \$37.6 billion.

PRODUCTIVITY AND COSTS

Tuesday, Feb. 8, 8:30 a.m.

The robust increase in economic growth in the fourth quarter at a time of more

modest hiring suggests that nonfarm productivity rose at an annual rate of about 4% last quarter, not much below the 4.3% surge of the third period. Manufacturing productivity probably led the overall gain. The impressive advance in output per hour worked in the nonfarm sector suggests that unit labor costs may have fallen for the second straight quarter. In the third quarter, unit costs dropped at a 0.6% annual rate.

RETAIL SALES

Friday, Feb. 11, 8:30 a.m.

Retail sales probably were flat in January, as the record cold temperatures in the East and the California earthquake kept shoppers at home. Car buying like-

ly fell back after a strong fourth quarter. So excluding cars, store receipts probably rose 0.3% last month. In December, total retail sales surged 0.8%, and auto purchases increased 0.7%.

PRODUCER PRICE INDEX

Friday, Feb. 11, 8:30 a.m.

The MMS median forecast projects producer prices of finished goods rose 0.3% in January. If so, that would be the first increase in producer prices since September. In December, prices fell 0.1%. Fuel prices probably fell last month because of strong weather-related demand. Excluding food and energy, prices probably rose 0.2% in January, the same rise as in December.

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DESTINATION, VIETNAM

U.S. COMPANIES TRAIL RIVALS—BUT NOT FOR LONG



In early 1968, during the Vietnamese Lunar New Year, Hanoi launched the Tet offensive against U.S. forces in South Vietnam. The attacks marked the beginning of the end for U.S. involvement in Vietnam. This month, the Vietnamese will celebrate the Lunar New Year by be-decking stores with fake giant red firecrackers. And the U.S. will mark its own new beginning in Vietnam. Any day now, Administration sources say, President Clinton will lift the 18-year trade embargo against Hanoi.

Convinced that a gusher of trade opportunities is imminent, U.S. business interests are poised to launch their own Vietnam offensive (table). Their target: lucrative opportunities in a country expected to become Asia's next Tiger. "It's the moment everyone has been waiting for," says Sesto E. Vecchi, a partner in the international law firm Russin & Vecchi, which has an office in Ho Chi Minh City.

That moment has been delayed because liberalizing relations with Hanoi has been difficult for Clinton. His efforts to avoid service in Vietnam sparked criticism during the 1992 campaign, and the embargo has been a touchy issue for him ever since. White

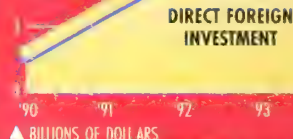
House advisers are bracing for blasts from families of soldiers still listed as missing in action. These kin fear their drive to press Hanoi for information will end. "We won't have any leverage any more," frets John T. Isaf of the American Defense Institute, a POW-MIA group.

But Clinton received some political cover on Jan. 27 when a bipartisan Senate majority, including former POW Senator John McCain (R-Ariz.), voted to sanction the move. And on Feb. 2, the Justice Dept. cleared Commerce Secretary Ronald H. Brown of allegations that he sought a \$700,000 payoff in exchange for ending the trade ban. What's more, the President's international economic advisers, who see exports to such emerging nations as the key to U.S. growth, have been clamoring to end the embargo. It's time, says one top Clinton aide, "to just step up there and do it."

LATE-STARTERS. For years, American multinationals have had to wait on the sidelines as European and Asian competitors made inroads in the 70 million-strong Vietnamese consumer market. In late 1992, Washington let American companies set up representative offices, which established business ties but couldn't cut deals. Now, all systems are go—and none too soon. "It's almost now or never," says Irwin Jay Robinson, president of the Vietnam-American Chamber of Commerce, citing an influx of loans and grants to Vietnam from the World Bank and other



BOOMTOWN, VIETNAM



lenders authorized last summer. "Within a matter of months, hundreds of thousands of dollars worth of contracts will be awarded."

Many U.S. multinationals have already enlisted business partners who conducted market studies in anticipation of the embargo's end. Three dozen American companies have received licenses to open representative offices in Vietnam, and another 15 await approval. The latest to receive a license is Eastman Kodak Co.—though locals already have set up unofficial Kodak mini-labs.

General Electric Co. is ready to get up immediately. John M. Trani, GE's \$3 billion medical systems division was in Vietnam in late January and met with Prime Minister Vo Van Kiet. C



70 MILLION NEW CONSUMERS

Nascent efforts by American companies to do business in Vietnam

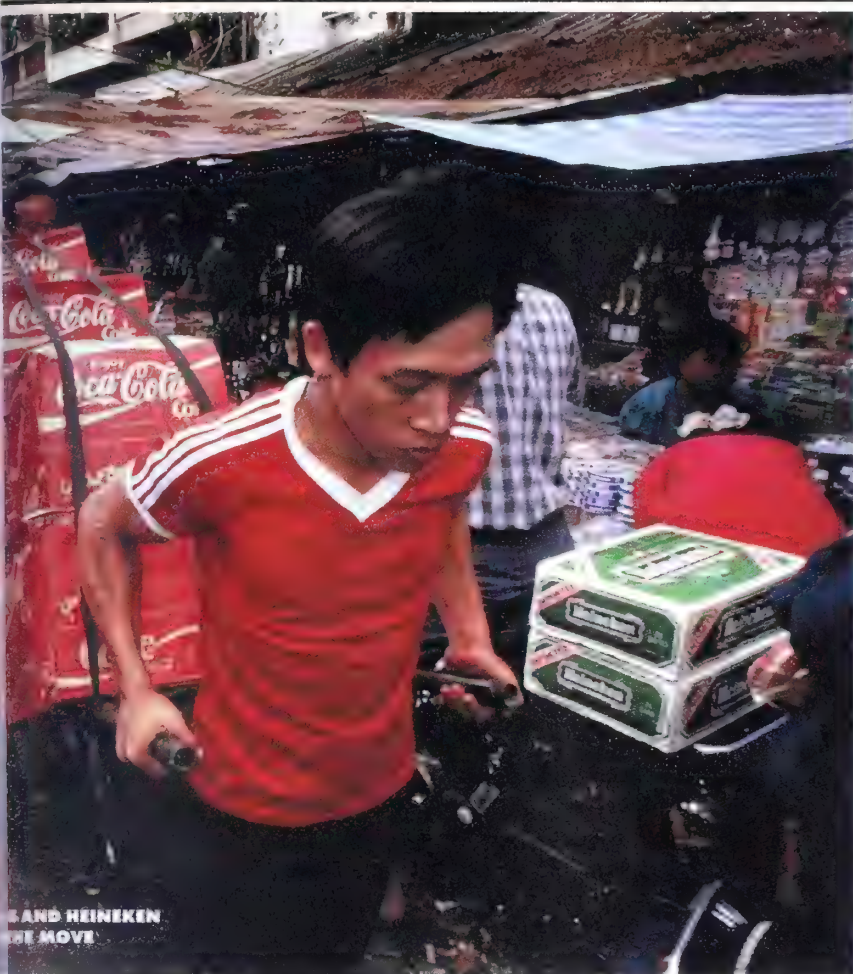
VIETNAMESE BILLBOARD

INFRASTRUCTURE

Caterpillar wants to supply equipment for a \$2 billion highway project. Some 50 other U.S. companies, including Morrison Knudsen, plan to submit bids for the first stage.

ENERGY

Mobil has teamed up with three Japanese partners to begin drilling offshore. Exxon, Amoco, Conoco, Unocal, and Arco are negotiating production-sharing contracts with PetroVietnam.



AND HEINEKEN
THE MOVE

embargo is lifted, GE will help build high-tech health-care centers. GE's power generation division also hopes to begin drilling in offshore fields. Vietnam should become one of GE's fastest markets within a decade, Trani reports on his trip.

Other American blue-chip companies are charging in, as well. Mobil Corp. is lining up with three Japanese companies to begin drilling in offshore fields in the South China Sea. Coca-Cola Co. signed a joint-venture pact for at least two bottling plants—and Western companies in Ho Chi Minh City say the company could be bottling within weeks.

Airlines are anxious to add Vietnamese cities to their routes. Even smaller players are diving in. BBI In-

vestment Group, a Chevy Chase (Md.) company, is set to invest \$100 million on a variety of deals, including hotel development.

But Americans trail foreign rivals. Six banks from France, Australia, and Thailand have branches in Vietnam, while BankAmerica and Citibank only have rep offices. Concessions in the rich Dai Hung oilfield, which Mobil discovered, were given to Japanese, France, Australian, and Malaysian players. And because of the embargo, Boeing Co. lost out on key sales to Airbus Industrie, which set up a \$1 million school to train pilots and crew in Ho Chi Minh City.

Yet American companies are confident they can catch up. One reason: U.S. brand recognition is so high. Dur-

ing the war, American goods sold everywhere, and the Vietnamese still covet them. Items ranging from Marlboros to Colgate toothpaste are smuggled in. Decades-old Caterpillars repaired with "bubble gum and Band-Aids" are on construction sites throughout the land, says James Rockwell, managing director of VATICO, the first U.S. company to open an office in Vietnam. "The Vietnamese respect our products," Rockwell says.

And there are still plenty of deals to come. U.S. construction companies are vying for big projects such as Highway 1, which will run the length of the country. And U.S. telecommunications heavyweights are set to grab business. "Vietnam's stimulus will come from the U.S.," says Tam Chung Ding, director of Motorola Semiconductors Co.'s Asia Div. **WARY HOSTS.** The Vietnamese, haunted by a long history of political and economic domination, repeatedly have said they want a strong American presence to counterbalance other Asian players. "They don't want to give everything to Japan or Taiwan," says Tanya Pullin, a lawyer specializing in Vietnam at the Hong Kong law firm of Deacons. "They want to spread it around."

With the embargo gone, U.S. companies still will bump up against relentless red tape in Hanoi. One American executive based in Vietnam likens the coming months to "a six-foot pothole on the way to Nirvana." American companies also will face tough battles to control ripoffs and smuggled U.S. imports. Mars Inc., for example, recently took out ads in Vietnamese newspapers in a drive to stem counterfeit candy.

It's not the only company with a high profile. As in past years, banners commemorating the New Year are everywhere. But now, Coke, Pepsi, IBM, and Kodak placards are sprouting up all over, too. Twenty-six years after the Tet battles, this year's holiday could once again usher in a new stage in U.S.-Vietnam relations.

By Joyce Barnathan in Hong Kong, with Alex McKinnon in Hanoi, Doug Harbrecht in Washington, and bureau reports

CONSUMER SERVICES

ed a trade office a
s. It plans to electrify
and will establish
Tech health-care
AT&T expects to step
distance service in
of the country.

AEROSPACE

Boeing hopes to win back
Vietnam Airlines orders lost
to Airbus during the embargo. United, Northwest, and
Continental could begin service to Hanoi and Ho Chi
Minh City.

CONSUMER PRODUCTS

Coca-Cola is ready to begin
bottling in Vietnam soon.
Pepsi ads have been seen
all over Ho Chi Minh City.
Motorola, Kodak, and
Philip Morris are likely to
enter the market.

FINANCIAL SERVICES

Citibank plans to open
branches as soon as it gets
permission from Washington
and Hanoi. BankAmerica
and American Express also
have ambitions to expand
as soon as possible.



To meet demand for flat-rolled steel, Nucor and others are pouring money into minimills

HAND-OVER-FIST CAPITAL SPENDING

Equipment outlays are charging the economy—and the spree isn't over

When is Corporate America going to start investing in its aging equipment base? Consider the spending plans of such large U.S. companies as Ford, Burlington Northern, Motorola, Pacific Bell and Intel. They are dramatically jacking up outlays for machinery and equipment.

Across the U.S., there's a veritable capital-spending boom going on. On Jan. 28, the Commerce Dept. announced that capital outlays soared 21% in the fourth quarter of 1993 and grew 14.7% for the entire year. The spree helped push gross domestic product up an astounding 5.9% during the December quarter and 2.8% for the year. Better yet, CS First Boston Inc. economist Rosanne M. Cahn figures that capital spending could advance an additional 15.5% this year.

Why the surge? The nation's capital stock is the oldest it has been since 1945. And low interest rates continue to entice companies into replacing aging machines. On top of that, a continued inability to raise prices, says 3M economist John McDevitt, is forcing companies to boost productivity and cut labor costs—which means replacing people with machines. With factory-utilization rates hitting 83% at the end of 1993, companies have little choice but to shell out to meet growing demand. Says economist Laurence Meyer of Laurence Meyer & Associates: "There is enormous momentum in capital spending."

You can say that again. Spending on computers, electronics, and office equipment is growing by leaps and bounds. Machine-tool orders climbed to \$803 mil-

lion in the fourth quarter, up 40% from the prior year, in part from orders by carmakers ramping up to meet increased demand. And double-digit growth in furniture sales is fueling investment in that industry. Pulaski Furniture Corp., a Pulaski (Va.) manufacturer with sales of \$140 million in 1993, poured \$10 million into a new computerized manufacturing facility, set to open in April. Chief Executive Bernard Wampler says the plant will use 35% less labor and boost sales \$40 million by 1995.

LABOR LOSS. Pulaski illustrates the near-term downside of capital spending. Productivity soars (chart)—but hiring these days rarely follows in the numbers it once did. Many companies are desperately attempting to avoid rising wage and health-care costs. Heavy-duty truck manufacturer Freightliner Corp., for instance, faced with a hot market, plans to boost spending on machinery by 20% this year to increase productivity. "We want to do everything to increase productivity without increasing people or plants," says CEO James L. Hebe. Ads Cahn: "Labor is simply more expensive than capital right now."

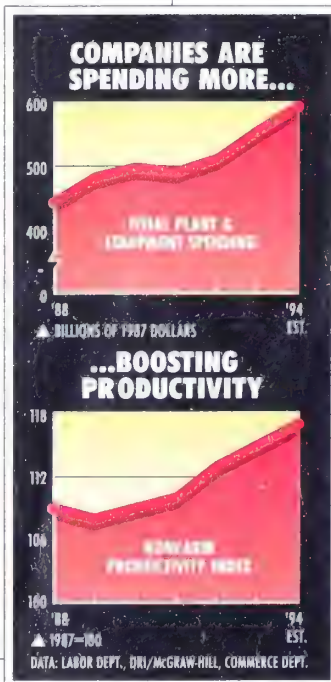
Capital spending isn't

killing all job growth, though. Trailer manufacturer Wabash National Corp. plans to push outlays for equipment to \$10 million this year, up over 1993. It also plans to hire dozen factory hands to run those machines. U.S. Robotics Inc., a Skokie (Ill.) communications-equipment maker, already signed on 300 employees this year, after hiring 460 last year. Louisville (Colo.) computer-storage device maker Storage Technology Corp. plans to hike employment 10% this year, adding 1,000 jobs.

Indeed, spending by high-tech companies—much of it for the long-awaited Information Superhighway—is doing a lot to fuel the boom. Just consider Pacific Bell. The San Francisco-based regional phone company recently announced plans to spend \$16 billion over the next seven years on a powerful system to allow homes and businesses to process voice, data, and video communications. Heavy investments in fiber optic coaxial cable, and digital switches will add up outlays close to \$1 billion annually.

PacTel isn't the only telecom outfit suddenly spending big, either. MCI, Bell Atlantic and American Telecommunications & Telegraph have unveiled plans to contribute their own contributions to the burgeoning superhighway. MCI Telecommunications Corp., for instance, recently announced it would invest \$20 billion by the year 2000.

The advance of technology is also driving investment by chip makers. Intel Corp., for



boost capital outlays 26% this year, \$2.4 billion. Much of that money will go toward jacking up production of its Pentium microprocessor, the chip it will power the next generation of personal computers. Intel added 3,000 jobs in 1993 alone, with more to follow. Firms like Advanced Micro Devices Inc. and Texas Instruments Inc. also are investing heavily. AMD will spend \$512 million this year, up 36% from 1992, partly to complete a new chipmaking facility in Austin, Tex.

Technology shifts are transforming the Rust Belt industries, too. Steelmakers

are pouring money into nimble minimills to meet demand for the flat-rolled steel used to make cars and appliances. Industry leader Nucor Corp. will invest \$70 million to double capacity at its two flat-rolled plants. "Low interest rates and the economy have contributed to our activity," says Nucor Chairman F. Kenneth Iverson. Among railroads, Burlington Northern Railroad Co. and CSX Corp. are spending heavily on next-generation locomotives that pull more weight and have fewer moving parts than current models.

There's a lighter side to the boom,

too. Boatmaker Brunswick Corp. plans to boost spending on machinery by about 10% this year to meet growing demand for its pleasure craft. And gambling companies in Las Vegas continue to spend lavishly to outfit new casinos with the latest whiz-bang high-tech special effects. Add that to all the other new spending that's going on right now, and the kind of money is being laid down that even a Vegas high roller could appreciate.

By Kevin Kelly in Chicago, with Robert D. Hof in San Francisco, Wendy Zellner in Dallas, and Joseph Weber in Philadelphia

LIP-SLIDING AWAY FROM THE FED

Two more nominations may blow Clinton's chance to influence policy soon

Wanted: Senior banker or economist. Extensive knowledge of monetary policy desirable. Spouse must be free of any financial entanglements. Equal opportunity employer.

The sudden opening of two seats on the Federal Reserve Board has given President Clinton an early shot out his stamp on monetary policy. The Administration's tortuous hiring policies threaten to squander a prime chance to moderate the Fed's inflation bias—just as the economy takes off. Clinton's big opportunity was created Feb. 1 with the surprise resignation of Vice-Chairman David W. Mullins Jr., plus the departure of Governor Anne D. Angell, whose term expired Jan. 31, allows the President to name two of the Fed's seven board members.

LADY SHAKY. Speed is of the essence, and Administration sources predict a decision on whether to raise short-term rates is likely before Clinton's nominees join the board. That's likely because financial markets already jittery about a Fed dominated by Clinton appointees. The White House is likely to accept a small bump in rates but would like to appoint someone who could halt further tightening as expansion gains momentum.

Yet the Clintonites have dawdled. At the end, the Administration finally set on Brookings Institution economist George L. Perry as Angell's replacement. But Perry's selection has been on hold because of concerns about a possible conflict of interest: His wife, who manages a mutual-fund stock portfolio, which can be affected by Fed interest-rate decisions. White House

lawyers and political advisers are now trying to decide if Perry should be dropped. "We want to be able to tilt the outcome [against higher rates] when there's a close call, but now that we're at just such a point, we're dithering," says one Administration official.

With Perry in limbo, filling the second seat is muddled by political requirements. For one, bringing more diversity to the white-male-dominated Fed is an Administration priority. "If we send up two nominations together, at least one has to be a woman or minority—no question," says one official involved in the search. But finding the right combination of candidates is tricky.

Perry, who initially had qualms about joining the Fed, was lured with the promise that he eventually would be a top candidate for vice-chairman, a job that was not expected to come open for a year. The timing changed when Mullins, a Republican who knew Clinton wouldn't reappoint him, decided to become a partner in Long-Term Capital Management in Greenwich, Conn., a new investment firm organized by ex-Salomon Brothers Vice-Chairman John Meriwether.

Now, Perry wants the No. 2 job or nothing, Administration officials say. But the high-profile appointment will only heighten the potential for confirmation questions over his wife's career. And if the President nominates Perry as Vice-Chairman, he'll complicate his task in

filling the other seat with someone other than a white male.

That's because several top women prospects who previously spurned interest in Angell's slot would be willing to reconsider for the No. 2 job, according to Administration insiders. Candidates include Council of Economic Advisers Chair Laura D'Andrea Tyson, Assistant Treasury Secretary Alicia H. Munnell, and Deputy Budget Director Alice M. Rivlin. Strong male candidates under consideration, all of them white, include Treasury Under Secretary Lawrence H. Summers, Harvard economist Benjamin Friedman, and Tyson's deputy at the CEA, former Princeton economist Alan S. Blinder.

Wall Street is leery of the whole process. "The market fears the appointment

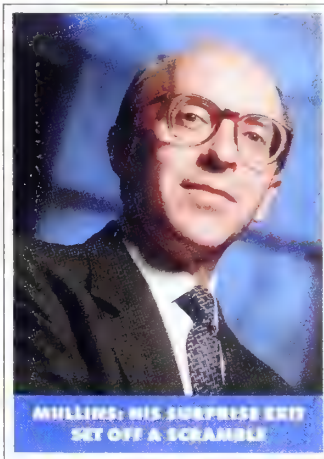
of someone less tenacious about sustaining the great progress the Fed has made on inflation," says Goldman, Sachs & Co. economist Robert M. Giordano.

Tyson counters that the Administration has no intention of packing the Fed with easy-money advocates. "A change in personnel will not change monetary policy for the country," she says. But in private, her colleagues concede that they wouldn't mind seeing

a Fed slightly less fixated on Chairman Alan Greenspan's announced goal of squeezing the last drop of inflation out of the economy.

Clinton's nominees may yet tilt the Fed toward a more accommodating stance. But it's probably too late for Clinton to make a difference if the Fed agrees to raise interest rates by March, something the Administration now believes likely. Just another costly reminder for a President who has trouble filling government jobs that messy politics can thwart even important policy objectives.

By Owen Ullmann in Washington



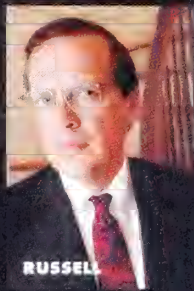
MULLINS: HIS SURPRISE EXIT SET OFF A SCRAMBLE

ALL THAT SPARKLES DOESN'T SHINE: GE'S DIAMOND MESS

APR. 21, 1992

Former GE Vice-President Edward J.

Russell sues the company for wrongful discharge, claiming he was fired because of his opposition to attempted price-fixing and other illegal practices. GE denies the charges. As a result of Russell's allegations, a Columbus (Ohio) grand jury begins an investigation into the industrial-diamond industry.



RUSSELL

APR. 12, 1993

James Whitehead, CEO of Brussels-based toolmaker Diamant Boart, a major



GE industrial diamond customer, is arrested in Columbia, S.C., and compelled to testify before the Ohio grand jury.

MAY 11, 1993

GE Chairman John F. Welch Jr. gives a deposition in Russell's civil case.

NOV 9-10, 1993

Belgian police search Brussels offices of Diamant Boart and its parent, Societe Generale, at the request of U.S. authorities, seeking evidence for the grand jury investigation.

JAN. 14, 1994

U.S. Magistrate Judge Robert A.

Steinberg recommends that GE be granted summary judgment on two of three counts in Russell's case. But he proposes that the third count go forward.

FEB. 21, 1994

Scheduled trial date in the Russell case.

By the end of March, the Justice Dept. is expected to decide whether to indict GE on criminal price-fixing charges.



WELCH

FOR GE, A TIME BOMB IN OHIO?

A wrongful-dismissal suit spotlighting price-fixing charges nears trial

Edward Russell is spending a lot of time these days watching videos in the basement of his Dublin (Ohio) home. But they aren't borrowed from his local video store. Russell, a former General Electric Co. vice-president fired in November, 1991, is boning up for his day in court by viewing seven days of depositions he gave in a case against GE. Beginning on Feb. 21, a Federal District Court jury in Cincinnati is scheduled to hear evidence on why Russell was fired. Was it for doing a lousy job, as GE says? Or was he wrongfully discharged for blowing the whistle on a diamond price-fixing scheme in which, Russell alleges, GE was involved?

Russell's charges could spiral. By the end of March, the Justice Dept.'s Antitrust Div. likely will decide whether to bring an indictment against both GE and De Beers Consolidated Mines Ltd. for price-fixing in 1991 and 1992. Investigators have ranged to Europe in trying to uncover evidence of such a scheme by the two companies—which control 80% or more of the world industrial-diamond market. A federal grand jury in Columbus is hearing evidence in that probe.

The case provides a dramatic test for GE Chairman John F. Welch Jr., and other big-name executives, including former GE Plastics chief Glen H. Hiner, now CEO of Owens-Corning Fiberglas Corp. GE denies all the charges, as do De Beers, Hiner and other principals. Indeed, GE's lawyer, Dan K. Webb, tried at a December meeting to persuade antitrust officials not to bring an indictment against GE, backing his case with a two-volume refutation of the charges.

WARNING. How did GE get into such a scrape? Russell, 55, a tall, voluble New Yorker, spent 18 years at GE, eventually running its Superabrasives diamond-making unit in Worthington, Ohio. He claims he gave Hiner, his boss at the time, a briefing paper warning of the antitrust dangers of a scheduled meeting with De Beers in September, 1991. Hiner's meeting, GE says, focused on a possible technology exchange.

But Russell claims in his suit that Hiner and other GE officials had contacted De Beers and related companies hoping to reach an agreement to stabilize prices in the industrial-diamond market. He says that he was dismissed on Nov.

11, 1991, in retaliation for his warning.

GE's defense against Russell's charges puts Welch squarely in the middle of the case. It argues that Welch himself ordered Russell's termination because of performance shortfalls and that Welch never knew about Russell's alleged warnings. Welch said in testimony that Russell's civil suit that Russell lied to him during a July, 1991, meeting at his division and didn't seem to understand serious problems in the business. Russell, Welch said, bombed again at another meeting in September. The next day, Welch wrote Hiner that "... Russell has to go. He made a fool out of himself in July, and yesterday he appeared to let himself out of it."

GE scored a partial victory on Jan. 14, when Magistrate Judge Robert A. Steinberg, who is handling pretrial matters in the Russell case, recommended that two of the three counts Russell brought be thrown out. But Steinberg said the third charge—under an Ohio law protecting whistleblowers—should go to a jury. Steinberg found "substantial evidence" contradicting GE's claim that Russell's performance was poor, noting that he had just gotten a "substantial raise."

The magistrate also seemed to find plausible Russell's contention that he was actually fired because of his warning about price-fixing. Russell claims he presented the crucial briefing paper to Hiner on Sept. 3, 1991. Steinberg found it possible that Hiner discussed the paper

th Welch on Sept. 4, when the two were together most of the day. Steing concluded that a jury should decide whether Welch was aware of the briefing paper when he made the decision to terminate Russell's employment." GE says the paper merely looked at the pros and cons of a technology exchange with De Beers. Besides, the company claims, the paper wasn't given to Welch until after Welch had decided to buy Russell. GE, however, was hurt by its inability to find the final version of the document.

GE also notes that the magistrate made no ruling on the merits of Russell's third charge; he ruled only that the involved disputed facts. Moreover, the magistrate's recommendations aren't binding and the U.S. judge in the case,

Herman J. Weber, could throw the whole case out. There's also the possibility of a settlement: Both sides acknowledge they have talked.

The Justice Dept., meanwhile, has been proceeding with its investigation. Last April, the FBI arrested James Whitehead, CEO of Brussels-based Diamant Boart, a major GE diamond customer with ties to De Beers, when he was on a trip to the U.S. Acting on an arrest warrant authorized by the Antitrust Div., the FBI flew him to Columbus, where he testified before the grand jury. The testimony is secret, but Russell alleges that Whitehead's former boss, then Diamant Boart CEO Philippe Liotier, helped arrange the GE-De Beers price-fixing. Whitehead calls Russell's charges "rubbish."

Investigators didn't stop with the unusual arrest. On Nov. 9 and 10, at the behest of U.S. officials, the economic crimes unit of the Brussels Judiciary Police searched Liotier's offices at Diamant Boart and at its parent company, Société Générale de Belgique, Belgium's largest company, where Liotier went to work after turning the CEO post at Diamant Boart over to Whitehead. The target: evidence of price-fixing. Some documents were collected, though their contents haven't been disclosed. Liotier didn't respond to requests for comment.

What does all this add up to? The allegations against GE may yet fizzle out. But if they don't, Welch—and his company—could be badly besmirched.

By Zachary Schiller in Cleveland, with Patrick Oster in Brussels

OPLE

DICK ROSENBERG'S MANIFEST DESTINY

BankAmerica CEO isn't likely to stop with the Continental merger

If it wasn't clear before, there is no mistaking it now: Chairman and Chief Executive Richard M. Rosenberg fully intends to make BankAmerica Corp. live up to its ambitious name.

Already the dominant force in West-States banking, BankAmerica began pushing east on Jan. 28, announcing its plan to buy Chicago-based Continental Bank Corp. for \$1.9 billion. The deal will put BankAmerica among the nation's biggest corporate lenders, on top of its rich retail empire. And it will win a firm threshold for further expansion. The Continental merger, though, reflects a grander theme—what Joel Friedman of Andersen Consulting calls Dick Rosenberg's manifest destiny. "Indeed, the deal is only the latest in a string of acquisitions that has boosted BankAmerica's already huge asset base by 81% since 1991.

FISH. With his jocular demeanor and fireplug physique, Rosenberg doesn't fit the mold of the staid BankAmerica leaders of the recent past. But he shares their quest for empire. When he took the helm in 1990, Rosenberg was certain that in the coming consolidation, only two or three S. banks would remain as truly global players. BankAmerica, he decreed, would be

one of them. That meant the bank would have to grow, and not incrementally. "We're not enamored with size per se," Rosenberg insists. "But you need a large bank to operate in a global environment."

The first big move: BankAmerica's \$4.7 billion acquisition in 1992 of Security Pacific Corp. It was an expensive deal: Analysts say the price may have been

several billion dollars too high. The result: flat earnings per share for 12 quarters and an anemic stock (chart).

Rosenberg was more careful with Continental. True, BankAmerica will pay 17 times Continental's trailing earnings—a heady premium. By buying back \$500 million of BankAmerica stock to help pay for the deal, though, stockholders should suffer no earnings dilution.

"MORE VALUABLE." In fact, the deal mostly has won praise. Both banks have a large base of corporate customers, but there is little geographical overlap. The 2,000 corporate accounts at Continental provide a rich market for BankAmerica's loans and fee-based services. With its better credit rating and huge retail network, moreover, BankAmerica should make Continental stronger. David M.

Schulte, an investor in companies such as Carter Hawley Hale Stores and Schwinn Bicycle, looks forward to dealing with Continental's new owner. "The extra capital and the international reach will make them more valuable," he says.

Of course, all these benefits depend on BankAmerica's ability to manage its expansion and Rosenberg's ability to refrain from growth for growth's sake. Says Stephen T. McLin, a former BankAmerica executive and now president of America First Financial Corp.: "I think he'd like to go out bigger than Citicorp." Rosenberg responds that he has "never thought in terms of legacy-leaving." He's probably being overly modest. He clearly wants to build a powerful global bank—and a profitable one.

By Russell Mitchell in San Francisco, with Richard A. Melcher in Chicago



RESTRUCTURINGS

AETNA'S HEAVY AX

CEO Compton is slashing 4,000 workers and two product lines

Ronald E. Compton is a man of his word. At Aetna Life & Casualty Co.'s annual meeting last April, he promised that the insurer would be profitable in each of its lines. Otherwise, he said, "we won't be in that business." Executives of marginal units didn't have to strain to get the message: Turn things around, or face the music.

It was no idle threat. On Jan. 28, CEO Compton said Aetna would stop selling guaranteed investment contracts (GICs) and single-premium annuities to pension plans. He also announced plans to lay off 10% of Aetna's 42,000 workers. Want more? Hang on. "I can positively guarantee you," Compton says, "this is not the end of changes."

The resulting charges likely will produce a 1993 net loss of at least \$350 million. But these are needed changes. Aetna's profits have declined steadily since 1987, with its stock following suit. A big corporate bureaucracy kept overhead costs high, and a tradition of offering a big, diversified product line made it hard to let go of unprofitable units.

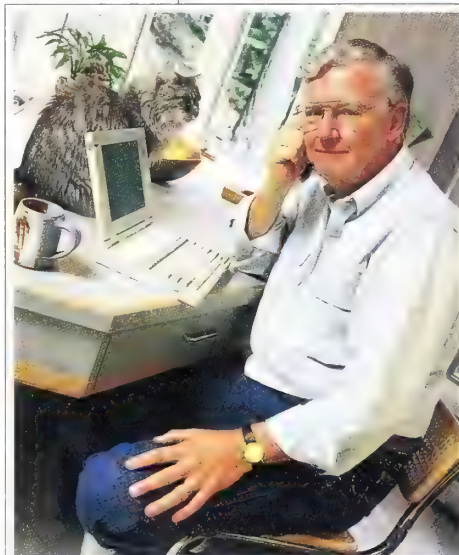
Until now. Price competition from specialty insurers, such as GEICO Corp. and Progressive Corp., has forced even the biggest multiline companies to pare back their offerings. ITT Hartford Insurance Group sold its health business last year, and CIGNA Corp. dropped auto policies. Says Gerald A. Isom, president of CIGNA's property and casualty line: "An insurer specializing in certain lines can make a profit much easier."

Finally, Aetna is specializing, too—with good reason. The GIC and single-premium annuity businesses, which guarantee returns to buyers, have lost \$125 million since 1992. Aetna has also shuttered unprofitable auto insurance operations in 28 states and sold its individual health business and reinsurance opera-

tions. "If we can't make money," says Compton, "we'll get out."

How to make money? Cut costs. The latest restructuring should save Aetna \$300 million a year, and more cuts are likely in the troubled property and casualty business. But its expenses remain among the industry's highest: Overhead in property and casualty is 32% of premium revenues, compared with an industry average of 27%.

STREET SMARTS. A philosophy major at Northwestern University who began his 40-year career at Aetna as an underwriter, Compton has combated high costs by emphasizing technology in reengineering the company. His goal: to push Aetna's return on equity, now at 7%, to the industry average of 12%. Wall Street likes what he's done so far: In the two days after the announcement, Aetna's stock rose 9%, to 63. And Sanford C. Bernstein & Co. analyst Weston Hicks raised his earnings estimates for 1994



COMPTON: EXPENSES ARE STILL HIGHER THAN THE INDUSTRY'S AVERAGE, SO "I CAN POSITIVELY GUARANTEE YOU THIS IS NOT THE END OF CHANGES"

and 1995 by 12% and 15%, respectively.

Compton's next step: Building profitable businesses. Getting out of GICs and single-premium annuities will free about \$1 billion for Aetna to expand its successful variable-annuity business, international operations, and managed-care lines, says Hicks. Aetna's variable-annuity sales grew 53% during the first half of 1993, according to industry newsletter *The VARDS Report*.

With Aetna's rivals moving just as fast, though, Compton has high hurdles. "Our shareholder return is not what it should have been," he admits. At last year's annual meeting, though, he promised shareholders to place Aetna in the top half of the Dow Jones Insurance Industry Index by 1997. He still has to make good on that promise.

By Chris Roush in Hartford

DEALS

THE ENVELOPE, PLEASE...

As Paramount stockholders start voting, Viacom holds the edge

Barry Diller and Sumner M. Redstone made their final offers to Paramount Communications Inc. on Feb. 1 with characteristic drama. The day bids were due, Diller tracked down one of his board members to a heliport in Venezuela, to win approval for QVC Network Inc.'s proposal to buy its cash offer to \$104 a share. And before QVC and Viacom Inc. held their bids until moments before the 5 p.m. deadline. Nevertheless, the latest skirmish in the five-month-old Paramount battle aroused about as much excitement as a fifth Super Bowl with the Buffalo Bills.

By now, arbitrageurs and other shareholders realize that Diller and Redstone are only tinkering with the mix of cash and securities in their offers. Diller's new bid, for example, is no richer than his previous one, although it has \$75 million more in cash. At current stock prices, says Lisbeth R. Barron of Salomon Warburg & Co., Viacom's bid is worth \$10.2 billion, while QVC's is \$10.5 billion. **NICE CUSHION.** So who's going to win? At the moment, Wall Street gives the edge to Viacom, despite its lower current value. That's because Redstone is offering shareholders a hedge against further erosion in his stock price.

Diller opted against such a cushion, but his advisers believe the former Paramount studio chief can win points by arguing that he would run the company better than Redstone. Paramount could use a steady hand: On Feb. 2, it warned of a third-quarter loss of \$35 to \$40 million. Diller's camp also plans to silence fears among Paramount shareholders about Viacom's prize asset, MTV. They say a new music-video channel, backed by big record companies such as Time Warner, Sony, and EMI, could hurt MTV by denying it access to performers. No sense, says Viacom: The record companies specifically said they would continue to license music to MTV.

Investors have until Feb. 14 to make their choice. That gives Diller two weeks to make his case. Given the cynicism and weariness of most Paramount shareholders, he faces a tough pitch—dramatic flourishes or not.

By Mark Landler in New York, and Ronald Grover in Los Angeles

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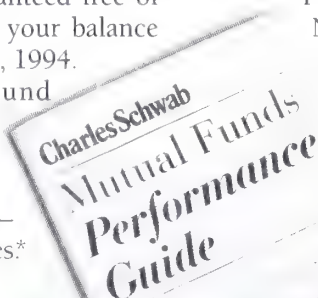
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DID PFIZER DOCTOR ITS NUMBERS?

To avoid political heat, it may have tried to "manage down" earnings

William C. Steere Jr. is in a strange bind. As chief executive of Pfizer Inc., one of the nation's healthiest drug companies, he should want to flaunt his company's double-digit earnings prospects. And yet, as chairman of the drug industry's main Washington lobbying group, the Pharmaceutical Manufacturers Assn. (PMA), Steere has to convince skeptical legislators that drugmaker profits already are under pressure. President Clinton's health-care reform, he argues, could endanger the industry's future.

What to do? Some industry insiders claim that Steere is spending heavily and delaying sales to deliberately dampen Pfizer's profit growth rates. "The company did the politically prudent thing at the beginning of the debate over health-care reform," says PaineWebber Inc. drug analyst Ronald M. Nordmann. "They managed down the numbers."

CUT JOBS. Steere scoffs at the idea as "just not true." Pfizer, he insists, is feeling every bit of the cost-containment pain that the entire industry is feeling. After all, it has cut 1,000 jobs since 1992 and is planning to trim 3,000 more in the next three to five years, moves that cost it more than \$750 million in charges to earnings last year.

But a closer look reveals that Pfizer not only is healthier than most of its peers but is faring better than its latest numbers suggest. Take its 19% slide in 1993 net income, to \$657.5 million. Back out restructuring charges and divestitures, and Pfizer shows a net income from ongoing operations of \$1.18 billion, a 15% rise—twice the increase of some major rivals.

There also is evidence that Pfizer pinched fourth-quarter sales while boosting expenses. Wholesalers say the company withheld all its medicines from them after mid-December, saying it wanted to prevent buyers from stocking up early in anticipation of a planned 2% rise in prices on Jan. 15.

The result: Wholesale customers couldn't get enough of such medicines as

Procardia XL, the billion-dollar blockbuster used to treat angina and hypertension. It wound up logging an 11% decline in sales in the quarter. "We wrote to them and said, 'Hey, we're running short,' and we offered to let them look at our inventory and check us out," says a drug wholesaling executive. "But they were insistent that [we] just want to build up to take advantage of the price increase." A Pfizer spokesman says the company simply has gotten better at "pricing" against hoarding before price hikes. **MORE R&D.** Whatever the reason, the effect was to tug down Pfizer's results. For the fourth quarter alone, sales growth for continuing operations fell to paltry 2%, vs. 24% in the year-ago quarter. For the full year, growth from continuing operations amounted to just

1% to \$7.47 billion. Pfizer's R&D spending matched or exceeded rivals. These moves helped the company in other ways: Curbing the sales growth rate kept Pfizer at a level less likely to invite "greedy drugmaker" charges from lawmakers. And pushing more sales into the first January will help boost up its results for 1994 when pressure from managed-care buyers hampering away for discounts likely to build with the quarter.

If Pfizer did manage earnings, though, it made a critical misstep: failing to warn Wall Street. Analysts had expected a 24% rise in earnings from continuing operations for 1993, and investors reacted badly to the reported 15% gain on Jan. 19. Pfizer's share price dropped \$5, to just under \$63. Since then, it has recovered only to 64 or so.

Managed or not, Pfizer's prospects are far from gloomy. Salomon Bros. analyst Mariola B. Haggardures that the company's clutch of older drugs and its new-product strategy guarantee earnings growth of 12.6% in 1994—not bad a year of diminished expectations. How that plays in Washington may be ticklish, but it's a problem Steere's drug-industry rivals can only envy.

By Joseph Weber in New York

STEERE SPEAKS OUT

Pfizer's chairman spoke with BUSINESS WEEK about his company's earnings and health-care reform.

Q Some analysts have suggested that you've deliberately managed your earnings down to look more "politically correct." How do you respond?

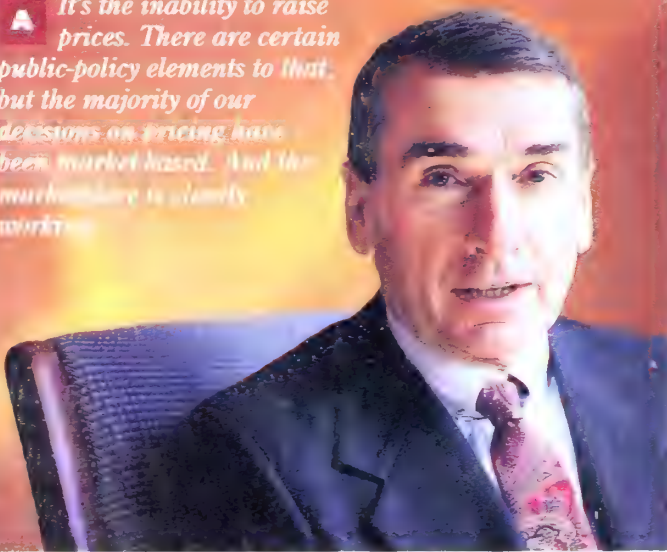
A That's just not true. The earnings are the earnings.

Q The Clinton Administration has set up the drug industry as the whipping boy for health-care reform. Do you think that's fair?

A No. I don't think that's fair. The pharmaceutical industry is an easy target because people buy their own drugs, whereas almost everything else in health care is reimbursed.

Q After raising prices fairly aggressively in the late 1980s, drugmakers have been restraining them in recent years. Is that for political reasons?

A It's the inability to raise prices. There are certain public-policy elements to that, but the majority of our decisions on pricing have been market based. And the marketplace is already working.





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BUILDING F-15s IN ST. LOUIS: THE SAUDIS WILL BUY 72 OF THE JETS, ISRAEL 20

McDONNELL DOUGLAS: UNFASTEN THE SEAT BELTS

Earnings are up, debt is down, and key fighter-plane orders are in hand

Plenty of words have been used to describe McDonnell Douglas Corp. since John F. McDonnell became chief executive in 1988. Most popular: "troubled," "cash-strapped," and "debt-laden." But now, the McDonnell family scion is finally hearing a term he likes: turnaround candidate.

The signs of a comeback at McDonnell Douglas are mounting. The aerospace giant's 1993 earnings, before accounting adjustments, surged 145%, to \$396 million, despite a 17% drop in sales, to \$14.5 billion. And in just 15 months, McDonnell has sliced nonfinance-company debt by 45%. Investors have applauded the performance so far, sending McDonnell's share price soaring 236%, to \$115.13, since September, 1992 (chart).

BUYING TIME. One more sign of the company's resurgence came on Jan. 27, when Israel announced that it would buy 20 McDonnell Douglas F-15 fighters valued at \$2 billion. Rival planemaker Lockheed Corp. had fought hard for the order, but the Israelis were swayed by the range and firepower of the F-15. "We've put to rest our critics on the question of our viability—we're going to be around," crows McDonnell Executive Vice-President Herbert J. Lanese. Agrees John McDonnell, who says his company could even consider a small aerospace acquisition this year: "Now we can switch from a defensive mode to an offensive mode."

That's a far cry from just four years

ago, when the St. Louis-based manufacturer found itself hurtling toward insolvency after pursuing four expensive, fixed-cost development programs simultaneously. Just as the company was running out of cash in mid-1990, John McDonnell launched a drastic restructuring that eventually slashed operating costs by more than \$700 million annually. He sacked 40% of the company's work force and peddled noncore assets such as the profitable European information-systems unit.

Lately, things have been going McDonnell's way. Saudi Arabia could have broken the company's momentum with its recent effort to back away from a \$9 billion U.S. defense gear order, which included 72 F-15s worth \$5 billion. But under a deal reached in late January, the Saudi government will still purchase all 72 planes, only slowing deliveries originally scheduled for the mid-1990s.

The real payoff of that deal's restructuring could come this year, when the Saudis are expected to begin an overhaul of the state airline. The resulting order

could total \$6 billion—and McDonnell likely to get a piece.

Things even seem to be looking for McDonnell Douglas' long-troubled C-17 transport aircraft. The company had sought \$1.6 billion from the Pentagon in compensation for what it claims were costly changes to the C-17. In 1993, it dropped the claims and was forced to swallow a \$450 million price charge in the fourth quarter to cover cost overruns and new technology. In return, the Air Force guaranteed that it would purchase 40 of the massive planes—far below the 120 units originally planned. Lanese concedes that "that's a hell of a price for McDonnell to get to keep the program alive. 'But it's a bet I'm willing to make because they see this airplane perform, they want more of them.'" Agrees A.G. Edwards & Sons Inc. analyst Kent Nease: "Once the C-17 is flying, there's just no competition."

"UNDER THE GUN." McDonnell has won the battle yet. Although Congress is expected to sign off on the C-17 sale, any more delays or performance problems on the first 40 aircraft will put the follow-on orders in danger. "They're going to be watched carefully, and they know they are under the gun," notes House Majority Leader Richard A. Gephardt (D-Mo.).

Likewise, McDonnell's long-term outlook in commercial aircraft is far from certain. Although rabid cost-cutting kept its commercial unit in the black for three years, orders remain sluggish. McDonnell had more plane orders in 1993 than it won; Boeing Co., in contrast, got 34 net new orders.

Jetliner orders aren't expected to pick up before at least next year.

Those are long-term concerns, however. Now, McDonnell executives are still basking in the afterglow of having beaten the odds by mounting a viable comeback. "These things never happen as speedily as you'd like," says John McDonnell, "but our fortunes are finally bearing fruit, and our gains are sustainable." Typical talk, to be sure. McDonnell Douglas shareholders sure sound the sound of it.

By James E. Ellinger, Chicago, with Richard Dunham in Washington and bureau reports



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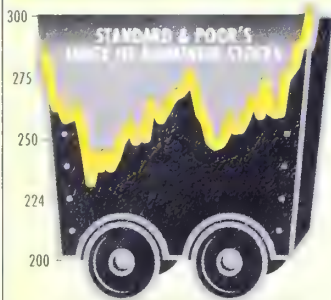
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EDITED BY KEITH H. HAMMONDS

CLOSING BELL



AN OILY SHEEN ON ALUMINUM

It sounded a lot like standard OPEC rhetoric. On Jan. 30, aluminum-producing countries agreed to battle a world glut by cutting back production. The markets applauded, hoping for a boost to aluminum prices. But the aluminum makers now must swallow painful production cutbacks—and make them stick. Further cuts are a tough pill for North American producers, who have already taken out 20% of capacity in the past two years. But the real question is whether Russia, in dire need of hard currency, will scale back.

DATA: BRIDGE INFORMATION SYSTEMS INC.

MORE HOLES IN DISNEY'S BAG OF TRICKS

Amusement parks are fun, right? Not for Walt Disney. In Paris, talks to restructure \$2.4 billion worth of debt for Disney's 49% owned Euro-Disney resort and theme park were threatened when angry bondholders demanded representation at the talks. The venture also posted a quarterly loss of \$93.5 million. And in Virginia, where Disney plans a \$600 million historic theme park, state lawmakers withdrew legislation to give Prince William County borrowing authority to pay for \$50 million worth of water and sewer-line improvements. That could force Disney to foot the bill. Disney didn't

comment on Virginia but said Paris talks should continue.

BIG BLUE TURNS ITS BACK ON PENTIUM

If you want to manufacture your own microprocessors, why pay another company for the rights to make its chip? You don't, IBM decided. On Jan. 31, Big Blue said it will pass on manufacturing rights to Intel's Pentium, though it will boost production of the Intel 486 chip it already has a license to make. Instead, Big Blue will try to establish its PowerPC microprocessor—jointly developed with Motorola and Apple Computer.

A BIT OF RESPITE FOR ICN'S PANIC

The proxy fight at ICN Pharmaceuticals may be over, but the legal wrangling goes on and on. Shareholders at the drugmaker's annual meeting on Feb. 1 "overwhelmingly" supported its directors against a slate put forth by stockbroker Rafi Khan, the company says. The vote ended a 10-month offensive by Khan to unseat ICN founder Milan Panic. Now, the battle moves to a New York courtroom, where ICN is suing Khan for \$75 million. It says Khan traded ICN stock using inside information. In

HEADLINER

COMPUSA'S NEW BOSS: DAMN THE TORPEDO

Its former chairman resigned abruptly in December after an unexpected quarterly loss. And on Feb. 2, the news got even grimmer for CompUSA: The computer superstore chain announced a loss of \$5.5 million, including a restructuring charge, even as sales jumped 65% from a year before.

Is new Chief Executive James Halpin backing away from the company's aggressive expansion plans? No way. When he ran HomeBase, a home-improvement retailer, Halpin once challenged managers to swallow fiery jalapeño peppers to underscore his resolve. Now, he says: "We



are continuing to expand CompUSA retailing concept. Halpin expects to open new U.S. stores in the first year ending June 30, 1994, many as this year.

CompUSA's problem is expansion, which got out of control as chain expansion. To pare back, Halpin will source assets of private-computer centralize inventory management. He is dramatically restructuring management—and taking more responsibility himself. Analysts say those moves should return CompUSA's profitability by the end of quarter.

By Stephanie Anderson

his own suit, Khan charges Panic with illegally managing ICN while he was Prime Minister of Yugoslavia.

LOPEZ' PALS CARRY THE DAY IN COURT

General Motors lost a key round in its simmering dispute with Volkswagen. On Feb. 2, a Frankfurt district

court dismissed a suit by Adam Opel unit seeking one-year employment ban for seven former Opel employees now at VW. The seven joined VW shortly after onetime purchasing czar J. Ignacio López de Arriortúa left VW for Wolfsburg. VW's ruling of the seven, the court ruled, was "under no circumstances" an unfair competition. Opel admitted that even a decision in its favor "would have been able to repair damage," since the seven had been at VW for a year or

PHOTO FINISH



FALLEN ARCHES: FEARING QUAKE DAMAGE, McDONALD'S SHUT THE LAST OF ITS ORIGINAL OUTLETS, WHICH IT WANTED TO CLOSE ANYWAY

ET CETERA

- ▶ Better news at Eastman Kodak: Operating income turned up despite flat sales.
- ▶ George Soros' latest passion: power plants. He'll back a venture with GE Capital.
- ▶ Lee Iacocca's new mercenary bank will do deals in airline gaming, and entertainment.
- ▶ No turmoil: Mobil and United Technologies both named new CEOs—peacefully.



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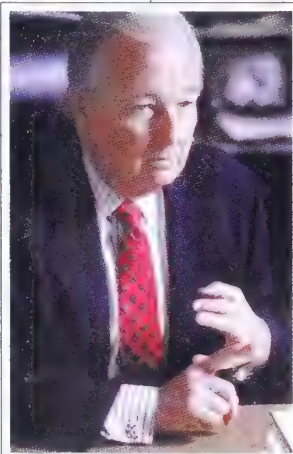
B.W. 11/94

CAN CLINTON CLEAN UP THE SUPERFUND MORASS?

The Clinton Administration had the best of intentions when it set out to reform the Superfund toxic-waste cleanup program, up for renewal this year. The goals: make sure that the worst polluters pay the most, ease the burden on fairly clean businesses, and end the drain of the program's resources into a bottomless pit of litigation. But the sheer complexity of the problem has blocked the consensus so the Clintonites hoped for. No interest groups are fully satisfied with the Administration's bill, scheduled to be introduced on Feb. 3 by Representative Al Swift (D-Wash.) and Senator Frank R. Lautenberg (D-N.J.).

The one thing everyone can agree on is that Superfund is a catastrophe. In 13 years, the Environmental Protection Agency has put 1,270 toxic-waste sites on its Superfund list. Only 49 have been completely cleaned. Much of the \$12 billion spent has paid for lawsuits to force companies to pay for the cleanups.

SHARE. Under current law, any company that contributes to contamination at a Superfund site can get stuck with the full cleanup cost. In practice, the government tries to nail the "potentially responsible party" with the deepest pockets. The target then tries to recoup costs by suing all parties with any liability. And nearly everyone tries to shift the cost to its insurer. The Administration had hoped to devise a system that would force each company to pay in proportion to its share of pollution. But the Justice Dept. objected that the system might violate due-process rights. So the plan now calls for private mediators to allocate shares of the cost. The mediator's recommendations are nonbinding, but Kathleen A. McGinty, director of the White House Office on Environmental Policy, says polluters will get big incentives to accept the deal. For example, the government would keep the right to force a company that rejects mediation to pay all cleanup costs.



SWIFT: LOWER LEGAL COSTS

Companies that contributed only minimal amounts of waste like the proposal because they would only be liable for minimal costs. But the chemical industry, with the biggest exposure, is worried. Unless lesser polluters are made to accept mandatory allocations, says Dell Perelman, attorney with the Chemical Manufacturers Assn., "then no one has to accept their share."

The role of the insurance industry in the cleanup is even more contentious. Most policies written before 1986 didn't exclude toxic-waste coverage. So companies facing Superfund charges have tried to stick carriers with the bill. A 1992 study of four insurers found that 88% of their Superfund costs went to pay for suits over claims.

"DISASTER." To spend more on cleanup and less on litigation, the Administration wants the insurance industry to put up to \$3.1 billion into a fund over the next five years to pay disputed claims. But insurers worry they could still get stuck with the liability of companies that won't pay their share of a mediated settlement. Mike McGavick, lobbyist for the American Insurance Assn., says the fund won't satisfy the industry unless it can "put an end" to old claims.

The proposal still has the support of the National Commission on Superfund, which represents banking, industrial, and environmental interests. But it may be difficult to hold a broad coalition together. With Congress facing a crowded schedule, the defection of any major interest group could consign the bill to an uncertain fate after 1994's elections.

That could be bad news for corporations now being driven to distraction by Superfund. "The current program is a disaster for American business," says Swift. The proposed replacement is less than perfect, but it could make it possible for business and the government to spend less on lawyers and more on cleaning up the toxic sites.

By Mary Beth Regan

PITAL WRAPUP

JUSTICE

Look for Attorney General Janet Reno to stick more closely to the Administration's anticrime line. Reno, who had little role in shaping the crime bill pending in Congress, irritated the White House recently by pushing her liberal approach to the "root causes" of crime while the President was espousing a crackdown. Now, Clinton aides say, Reno will coordinate her positions with the White House—and will work for the President's crime-bill priorities, including mandatory life sentences for felons who commit violent crimes three times. Meanwhile, insiders at Justice

say the search for a Deputy Attorney General to replace Philip B. Heymann, who resigned on Jan. 27, has narrowed to Washington lawyer Charles F. C. Ruff, Manhattan U.S. Attorney Mary Jo White, and Pentagon General Counsel Jamie S. Gorelick.

LEGAL AID

White House Counsel Bernard W. Nussbaum, much criticized for his insensitivity to the politics of legal and personnel decisions made at 1600 Pennsylvania Avenue, is getting some help. Washington lawyer Victoria L. Radd, a veteran of the Clinton campaign's celebrated "war room," is coming aboard as an associate counsel.

CAREERS

Could there be a Senate race in the future of retiring Federal Reserve Governor Wayne D. Angell? For now, Senate Minority Leader Bob Dole has found his fellow Kansan a job running the Better America Foundation, a Republican think tank. He'll also serve as an economic and political adviser to Dole, a probable candidate for the GOP 1996 Presidential nomination. But friends say Angell really wants to run for the Senate in '96 if Republican Nancy L. Kassebaum retires, as many suspect. Angell, a onetime farmer and economics professor, lost a Republican Senate primary to Kassebaum in 1978.

GERMANY

BMW'S COMEBACK

It's beating the world slump—and Japanese rivals



THE NEW GENERATION:
CEO PISCHETSRIEDER, 45,
IS SHAKING UP THE STODGY
COMPANY—AND SHEDDING
THE YUPPIEMOBILE IMAGE

When Karl H. Gerlinger checked into his hotel on the eve of the Detroit Auto Show in January, 1990, a front-page newspaper item made his eyes pop. Atop a list of trends was: "What's out—BMW. What's in—Lexus." For the marketing whiz who had been sent over just five months earlier to be president of BMW of North America Inc., it confirmed his worst fears.

The Munich carmaker was, in fact, staring into an abyss in the U.S. The soaring German mark, plus luxury taxes and stiffer levies on gas-guzzlers, made its cars too expensive, and the end of the '80s boom left its "Yuppiemobile" image badly tarnished. What's more, the company had misjudged the challenge from Japanese rivals such as Toyota Motor Corp.'s Lexus and Nissan Motor Co.'s Infiniti. U.S. sales slumped from a peak of 96,000 in 1986 to a low of 53,300 in 1991.

Gerlinger quickly huddled together with market-research gurus, dealers, and BMW buyers. Travel bills soared, as he and colleagues from Munich and U.S. headquarters in Woodcliff Lakes, N.J., crisscrossed the Atlantic for crisis meetings. Executives gathered at such spots as the Ho-Ho-Kus Inn, in Ho-Ho-Kus,

N.J., and hatched a plan for a comeback in the all-important U.S. market.

First, they would reposition BMW's 5 and 7 Series cars—in plain English, cut prices. Then, they would launch smaller, more affordable models. That meant BMW risked losing even more money in the U.S. until the plan paid off. Back in Munich, recalls Gerlinger, "initially, no one was waiting with open arms to welcome the plan." A blunter co-worker adds: "Lots of people thought we were crazy."

But before long, CEO Eberhard von K nheim had come around. Gerlinger got the go-ahead to cut prices. Then, BMW lucked out: German unification in 1990 led to a boom in auto sales in Europe, easing the financial pain. At the same time, von K nheim accelerated the risky transition to a generation of forty-something managers, who have reinvigorated the company's stodgy culture. Plans were

BMW brought out less pricey models, cut costs, and stressed safety and value

set in motion to make more of its products outside Germany, to build a factory in the U.S., and even to snatch British Rover PLC, maker of such upmarket cars as the Range Rover, from under the nose of Honda Motor Co.

At first, it wasn't clear BMW could revamp its image quickly enough—from a symbol of affluence to a bastion of safety and value. But today, BMW has clawed its way out of the pit. Sales in the U.S. shot up 23% in 1992, and U.S. market share now stands at a record 7.3% of the luxury-performance sector.

ON A DIME. At the heart of BMW's turnaround plan was the decision to fight Japanese on their chosen playing field: price. BMW cut prices on its full-size 5 and 7 Series, the company's flag cars in the U.S. By mid-1990, BMW slashed the price of its 318i sports coupe to \$7,500 less than the 325i—until then, the cheapest performance car. BMW reappeared back in the U.S. in August, 1991, with the 318i sedan, priced at \$19,900, cheaper than anything comparable from the Japanese—and \$5,000 below the least-cost BMW anywhere. The sales turnaround spin stopped on a dime.

Coping with lower prices focused

otlight back on Germany and its high
or costs. Fortunately, BMW had begun
tackle the problem earlier. Back in
88, it had persuaded the powerful IG
etall union to work Saturday shifts at
W's big Regensburg plant. It was also
e of the first producers to cut staff. It
mmed down its 73,500 work force by
00 as early as 1992—and is still pruning
attrition. The layers of management
re cut from five to three.

All that created tension at BMW's tubu-
-tower headquarters in Munich. After
esiding over annual sales growth of
%, compounded over two decades, the
rtly von Künheim, a Prussian, was
aring retirement as CEO. Then, as von
nheim bowed out in May, 1993, after
years, he tapped Bernd Pischetsrieder,
a relaxed Bavarian engineer with 20
ars at the company, to replace him.
e choice stunned industry pundits. But
schetsrieder had earned his spurs lead-
g the SWAT team that picked the site
BMW's first-ever full-blown overseas
tory, a \$400 million plant in Spartan-
rg, S.C., that will initially assemble
3i models from parts mainly shipped
in Europe, starting at yearend.

RING RAID. The plunge into U.S. pro-
ction is proving to be the crucible
ough which all of BMW's new genera-
on of leaders will pass. In fact, it's one
their defining traits: They all believe
at making it in the U.S. is a must to
coming a global player. Says R&D Di-
tor Wolfgang Reitzle: "The U.S. mar-
t is the toughest in

world. If we are
t successful
ere, we will
ally lose the
ole battle." But Pischets-
der wasn't
it stopping
ere. After
iving into
e top job,

revved up to pounce on Britain's
ver car group, 20% owned by Honda
tor Europe Ltd. After initial rebuffs,
persisted, and on Jan. 31, BMW an-
nounced it had plunked down \$1.2 billion
cash to buy British Aerospace PLC's
% stake. "It was a very big surprise for
" says Honda Europe President Shojiro
yake. "We were very disappointed."
d angry, too: Through Rover,
W becomes a 20% shareholder
Honda U.K. Manufacturing Ltd.
well as the supplier of all the
mped parts that go into British-
de Hondas.

Pischetsrieder's daring raid also pokes
inger in the eye of German archival
cedes-Benz. Analysts say it will pow-
BMW into the ranks of such carmakers
General Motors Corp. and Volkswa-

gen, which turn out more than 1 million
units a year. Indeed, the combined group
will be the 13th-largest auto company in
the world and have about 7% of Western
Europe's market, nearly double Mercedes'
share (page 44).

Already in the works is a slew of new
products to roll out during the next three
years. In mid-1994 comes a new model of
its top-of-the-line 7 Series. Two 3 Series
variants will also be launched: a compact
in the spring and the station-wagon-style
"Touring" in the fall. By 1996, a new mod-
el of BMW's mainstay, the mid-range 5
Series, is due.

Sustaining BMW's comeback will require
a kind of permanent revolution against
costs. Analysts figure the company's unit
labor costs are in line with GM Opel's,
the German industry leader. But Pischets-

rieder, like other young technocrats, is
keeping the heat on employees: His first
edict was to demand 6% annual produc-
tivity gains as a permanent goal. That
requires BMW to become one-third more
efficient every five years and produce
each model generation with at least a
20% drop in costs.

Amid much gloom in Europe's auto
sector, financial markets are upbeat about
BMW, particularly after the Rover deal.
The stock shot up nearly 8%, to \$420.60,
after the announcement. Schröder Münch-
meyer Hengst & Co., a private bank,
rates it "first choice" among auto stocks.
"BMW is the only [European] company
making money and cars at the same
time," says Thomas R. Holmes, a senior
manager at the bank in Frankfurt. In-
deed, BMW is a member of the most ex-
clusive auto club in the world: Only Toy-
ota and BMW have made net profits in
each of the past 30 years.

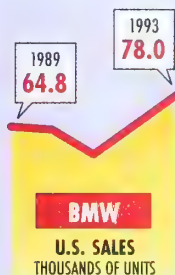
To keep the BMW revival on track,
Pischetsrieder is attempting to change
the company's entire culture. To break
through the stifling for-
mality typical of Ger-
man companies,
the CEO has
started using
his co-workers'
first names and
the familiar *Du*
form of "you." Com-
munication has be-
come a great deal
more direct. "Folks,

this is garbage—we've got to do better,"
Pischetsrieder told colleagues at a recent
meeting. And instead of pushing memos
up and down the command chain when
he wants information, Pischetsrieder picks
up the phone and talks to the person
who has it, however junior. "Leadership,"
he says, "is one thing, and decision-mak-
ing something else—and 95% of the deci-
sions should be made by the people di-
rectly involved."

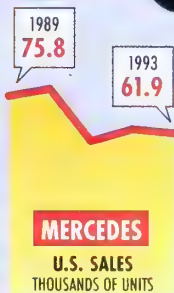
LITANY OF FLOPS. The acid test of
Pischetsrieder's stewardship will be carv-
ing a success at Spartanburg. The new
plant, eventually slated to turn out 90,000
units a year of its new car, aims to break
a long-running jinx on Europeans' efforts
to manufacture cars in the U.S. Mer-
cedes-Benz and its Freightliner Corp. unit
showed they could make trucks. But so
far, passenger cars have been a litany of
failures: France's Renault flopped
with American Motors Corp. in
1987, and Germany's Volkswagen
fled that year after piling up loss-
es in Westmoreland, Pa.

To round out its management team,
BMW has lured two manufacturing mavens
from Honda's Marysville (Ohio) plant to
gear up production in Spartanburg. If
the South Carolina plant works, it will

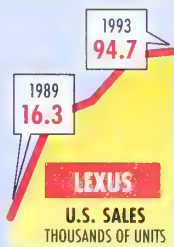
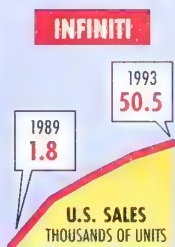
BMW SNAPS BACK IN THE KEY U.S. MARKET



1994 BMW 530i
\$42,600



1994 MERCEDES-BENZ E320
\$42,500



1994 LEXUS GS 300
\$41,000

BASE PRICES, U.S. PORT OF ENTRY, WITH AUTOMATIC TRANSMISSION. EXCLUDES
TRANSPORTATION AND TAXES

DATA: WARD'S AUTOMOTIVE REPORTS

ILLUSTRATION BY JEFFREY M. HARRIS

prove, says Gerlinger, who is now back in Munich heading sales and marketing in BMW's core German, Swiss, and Austrian markets, "that the Japanese are not the heroes who just march into markets and sweep up everything."

Quality will be a further challenge. Dealers are happier now, but the latest mid-1993 ratings from J.D. Power & Associates Inc. show BMW is improving—but still lagging on quality and consumer satisfaction.

WORLD STANDARD. R&D Director Reitzle and colleagues spent several days in the U.S. in January in a blitz on quality. Easy problems, such as batteries installed in Germany that went dead during the sea voyage to America, have been fixed by installing locally made batteries. Leather upholstery in U.S. models is simply stretched less tight to give softer seating. But BMW doesn't want to make customized models for each of its markets. The car built in Spartanburg, for instance, will be shipped all over the world.

BMW builds in even more quality control by combining the purchasing function with R&D and design. For new-model projects, the teams include designers, engineers, purchasing agents, and manufacturing people. The method, unique to BMW, allows the company to work on friendlier terms with its 100 systems suppliers. All the same, it results in efficiency gains and quality improvements. A sun roof, for example, which used to be assembled by BMW from 60 different parts bought from outside suppliers, now comes semiassembled with only three parts.

The integrated approach, say BMW officials, is yielding cost reductions of at least 20% and up to 40% in some cases. That's significant for Pischetsrieder's drive to increase companywide productivity by 6% a year.

To that end, BMW has resisted the industry trend toward faster model cycles because of the huge capital burden. Reitzle insists on eight years as a norm, recouping the typical development costs of \$1.2 billion per model over a longer period than many competitors. BMW keeps the lines fresh during their extended shelf life by an aggressive variants policy. The 3 Series, for example, now has four distinctly different versions. The strategy helps catch fickle market changes and keeps manufacturing volumes higher for longer.

BMW's against-the-grain style offers lessons for Germany Inc. as a whole. As BMW's top team is breaking out of the rigidity that's typical of the German corporate mentality, it's also making itself into a major-league global player.

By John Templeman in Munich, with James B. Treece in Detroit

HOW BMW ZIPPED IN—AND CALLED ROVER RIGHT OVER

It was the closest relationship between any Japanese and European carmaker. It began with a modest licensing agreement Honda Motor Co. made with Rover Group Ltd. nearly 15 years ago. The partnership blossomed in 1990, when Honda bought a 20% stake in Rover and the British company took a 20% stake in Honda's British operations. By combining Honda's engineering knowhow with Rover's design skill, the Japanese partner turned out to be a blessing for Rover.

Then, seemingly out of nowhere, BMW zoomed onto the scene. On Jan. 31, the German carmaker announced it

BAe focus on its core defense and aerospace units.

But Honda is reeling. Says Honda Motor Europe Ltd.'s President Shojiro Miyake: "We didn't prepare for this case at all." Honda had been planning to expand in Europe, using Rover's suppliers and buying more parts from Rover itself to boost local content. Officials aren't saying what they'll do next. But analysts in Tokyo figure the company will withdraw from Rover and go it alone in Europe.

Even so, the tie between Honda and Rover won't be quickly sundered. The Rover 600 series of four-door sedans,



HONDA WILL STILL DISTRIBUTE ROVERS IN JAPAN

launched last April, is essentially a rebundled Honda Accord, with engines from Honda's \$555 million plant in Swindon, Wiltshire. Rover's 200 and 400 models, representing one-third of its \$6.5 billion sales, are based on the Honda Concerto subcompact. In turn, Rover assembles the Concerto for Honda in Britain. And last November, Honda began distributing Rover's four-wheel-drive Discovery in Japan as a Honda Crossroad.

Honda needs Rover, too. The 18-month-old Swindon

would buy the remaining 80% of Rover from parent British Aerospace PLC (BAe) for \$1.2 billion in cash. Overnight, the outlook changed for all players, and the European auto industry will never be the same. In today's cut-throat global market, it's clear that luxury carmakers have to offer a full line of products to survive.

ONE FELL SWOOP. With a new CEO and amid a strong U.S. comeback, BMW is on a roll. By grabbing the venerable British nameplate, in one fell swoop it has doubled its European market share, to 6.4%, and filled out its product line with Rover's four-wheel-drive vehicles and small cars, the Mini and the Metro. "There's a short way to get a sport-utility vehicle and a long way," explains Victor H. Doolan, president of BMW of North America Inc. "We chose the short way."

The deal works for BAe, too, giving it needed cash while relieving it of \$1.4 billion of debt and off-balance-sheet financing. Dumping Rover lets

plant, for instance, relies on Rover for all its major body parts. And Honda's European sales alone don't generate enough volume to keep its five-year-old engine operation running efficiently. Likewise, Honda U.K. is Rover's biggest supplier. That's why BAe CEO Richard H. Evans believes Honda won't serve divorce papers on Rover quite yet. "It's not in Honda's interest to walk away," he reasons.

Ultimately, BAe's choice came down to simple arithmetic: Honda's final offer valued Rover at just \$900 million compared with BMW's bid of \$1.2 billion. It was a painful way to end what was one of the most promising partnerships in the industry. But eager to soothe hurt feelings, BMW CEO Bernd Pischetsrieder is already planning to meet with Honda honchos. At least for now, Honda may decide that it's a workable marriage of convenience.

By Julia Flynn in London, with John Templeman in Munich and William Spindle in Tokyo

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A JUMP-START IN JAPAN—JUST IN TIME

A \$55 billion tax cut may send sales surging and hold off plant closings

It's the good news Japan has been waiting for. After more than a year of false starts in the economy, crippling political intrigues, and stock market swoons, Prime Minister Morihiro Hosokawa finally has come through with a stimulus package of generous proportions. With a hefty tax cut for ordinary citizens and benefits galore for big business and banks, the deal, announced in early February, lays the groundwork for a consumer-led recovery.

Hosokawa wrested \$135 billion from Japan's tight-fisted Finance Ministry, a good \$18 billion more than most estimates (table). Unlike earlier packages, which just accelerated public spending, this deal actually puts money in consumers' pockets by mandating a \$55 billion annual income tax cut, retroactive to Jan. 1. That comes to about \$1,100 per household. More consumer demand means companies can restore semi-idle plants to normal production and avoid closings. And stoking spending is just what U.S. trade negotiators want, since they figure a recovering Japan is more likely to suck in imports.

WORN-OUT WARES. The risk is that consumers, still hung over from the go-go 1980s, will just dump their new money into savings accounts and so torpedo a recovery. And the Finance Ministry has forced Hosokawa to agree to a corresponding hike in the sales tax, from 3% to 7%, later on.

The betting now, though, is that consumers will come out of their shell. True, they probably won't plump down big money for luxury goods. But they need to replace worn-out appliances and consumer electronics. Already, sales of electrical appliances at such discounters as Mr. Max Corp. and Keiyo Corp. are strong. Retail analyst Yukihiro Moroe at Goldman Sachs (Japan) Corp. thinks that about half of the tax cut will get spent. As for the sales-tax hike, Hosokawa man-

aged to defer it until April, 1997, giving consumers three years to buy until they feel the pinch.

Executives are already anticipating a lift from this spending. They figure consumers will feel more confident now that Hosokawa has enacted electoral reform and freed the government from last year's political paralysis. Nobuyuki Horiuchi, head of planning at Toshiba Corp., sees perhaps \$90 million in sales to consumers

There are hurdles to clear. Banks are still absorbing bad debts accumulated from years of shaky real estate deals. Bankers might stop a fledgling recovery in its tracks by failing to lend enough when the time comes. Yet Hosokawa's package budgets some \$5 billion to purchase land for public works. Additional cuts in land-transaction taxes should make real estate sales easier. These measures will likely free the banks of some of that unwanted real estate, giving them a freer hand to extend new loans.

Perhaps a more substantive worry is the strong yen. If Hosokawa doesn't force bureaucrats to agree to hard goals in trade with the U.S., Treasury Secretary Lloyd M. Bentsen may yet again talk the yen up. Then, Japanese export giants could see any domestic sales gains sw-

lowed up by overseas losses. **NO SPOILERS.** Longer term, too, it's unclear that Hosokawa can push through serious economic deregulation that would permanently benefit consumers as well as the most efficient manufacturers and retailers. Dan Harada, a lobbyist with close connections to the Liberal Democratic Party, thinks Hosokawa's popularity cuts the ice with powerful bureaucrats. "His 74% [approval rating] makes a good headline," says Harada, "but the people at the Ministry of Finance know it doesn't mean much."

Perhaps, but business could find other encouraging signs in the political upheaval: The Japan Socialist Party looks to be on its last legs. A think tank associated with the *Nihon Keizai Shinbun* recently ran a computer simulation reenact the last election, using the just-approved electoral system with its 300 single-seat constituencies. The computer showed that the Socialists would have won only four lower-house seats, as opposed to 77 now.

That means the Socialists, who almost derailed electoral reform and who have balked at Hosokawa's attempts to rev up the economy, will be able to play the spoiler in future parliamentary maneuverings. So probusiness politicians in the LDP and Hosokawa's Japan New Party can get the economy prompt attention from the on. All the more reason to think a recovery is in the offing.

By Larry Holyoke in Tokyo

HOSOKAWA'S STIMULUS PACKAGE...

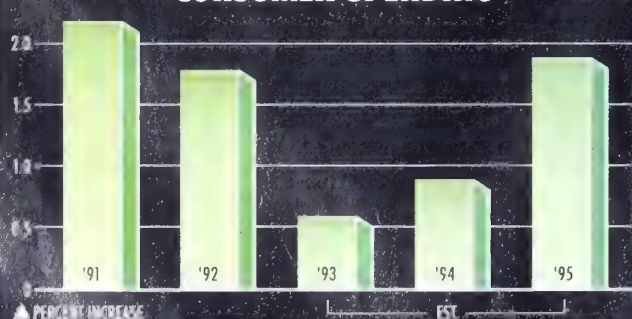
BILLIONS OF DOLLARS

INCOME TAX CUTS	\$55
PUBLIC WORKS	32
LAND PURCHASES	25
SMALL-BUSINESS LOANS	11
HOME MORTGAGE SUBSIDIES	9
MISCELLANEOUS	3

DATA: BUSINESS WEEK



...SHOULD BOOST CONSUMER SPENDING



DATA: S.G. WARBURG & CO.

this year as a direct result of the package. And as the tax cut's effect is gradually felt in the whole economy, Toshiba looks for much bigger improvements. "When the indirect effects start to show up in capital spending, that will make a big difference," says Horiuchi. Consumer-goods companies won't be the only beneficiaries. The package helps construction firms by earmarking \$32 billion for public works, from bridges to sewers.

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CHINA

'RED CAPITALISTS' ON THE TAKEOVER TRAIL

Powerful pals and sharp financial minds have Everbright booming again

More than most Chinese companies, China Everbright Holdings Ltd. knows that operating in the free market is not a one-way ticket to riches. In the early 1980s, the financial group was a highflying "red capitalist" arm of China's State Council. But then Everbright fell on hard times because of staggering losses and the political fallout of Tiananmen Square. To restore order, Beijing installed as chairwoman Qiu Qing, a tough former central bank official with close ties to economic czar Zhu Rongji.

For a career bureaucrat, the 65-year-old Qiu has proven a surprisingly astute corporate doctor. She has ditched money-losing assets, refocused Everbright's investment strategy, and hired some of China's brightest young financial talent. Assets now exceed \$1.2 billion—compared with \$100 million in 1991. And Qiu's goal is to triple Everbright's size in three years, creating an empire spanning financial services, real estate, manufacturing, and retailing. "Everbright has woken up," says Deputy General Manager Alexis Wong.

FEW ENEMIES. Everbright has plenty of company on the takeover trail in China. The intensifying campaign to reform state enterprises has triggered a nationwide fire sale of assets. Everyone from state-run companies such as China International Trust & Investment Corp. to Morgan Stanley & Co. is amassing war chests. But the biggest players are well-connected ethnic Chinese tycoons such as Indonesia's Oei Hong Liong, Thailand's Dhanin Chearavanont, and Hong Kong's T.T. Tsui.

Thanks to Qiu, Everbright boasts *guanxi*—connections—galore. A former vice-governor of the People's Bank of China, Qiu is regarded as a shrewd and decisive manager with few political enemies. She has recruited dozens of rising stars at Chinese banks, many of them with foreign experience. Nearly 90% of

Everbright's 300 staff members are under 40 with college educations. One of her top hires is 39-year-old Wang Yake, a key central bank official. Now president of Everbright's Hong Kong subsidiary, he's the group's top dealmaker.

The new team has helped Everbright recover from earlier mistakes. Formed in Hong Kong in 1983, the company stumbled badly at the end of the decade. Its biggest bungle was backing out of a \$120 million property deal with Hong Kong billionaire Li Ka-shing in 1984 that

then skyrocketed in value. And it picked some losers. From 1987 to 1991, Everbright racked up \$100 million in losses as annual sales plunged from \$647 million to \$97 million. To top it off, former Chairman Wang Guangying, a confidant of deposed party chief Zhao Ziyang, supported the protesters in Tiananmen Square. Nine months after the 1989 massacre, Wang was replaced by Qiu.

To get back on track, Qiu built a lucrative foreign-exchange brokerage and raised \$50 million from foreign banks. With the proceeds, Evergreen scored quick profits in China's red-hot stock and property markets. When the markets overheated in 1993, Everbright turned to corporate takeovers. It spent \$145 million to acquire four publicly listed holding companies in Hong Kong and Singapore involved in real estate, retailing, and consumer electronics.

These companies are now being used as vehicles to mount takeovers in China. Newfoundland International Co., acquired last spring and renamed China Everbright International Ltd., bought a 55% stake in Xinxing Pipes Co., an iron tube plant in Hebei province, and is close to buying a major pharmaceutical company. **NEW MOLD?** Qiu has big plans in finance. Everbright last year paid \$60 million for 20% of the \$1.2 billion International Bank of Asia Ltd. (IBA), the Hong Kong subsidiary of Arab Bank Inc. Corp. Decision-makers in Beijing are helping their friends at Everbright—the company won approval for the IBA deal in less than a week. With Beijing promising to open its market to foreign banks, IBA/Everbright is a leading candidate to become one of the first foreign joint-venture commercial banks.

The real test of how much Everbright has learned since the 1980s will come when it actually has to manage all of the businesses it has acquired. Says one U.S. investment banker in Hong Kong: "The unknown factor is whether they will be able to break out of the mold of state-run Chinese business and become entrepreneurial." Better than anybody, Everbright should know how badly things can go awry. So Qiu's confident young managers just may have what it takes to be front-runners among Chinese capitalists.

By Pete Engardio in Hong Kong



EVERBRIGHT'S EXPANDING EMPIRE

FINANCIAL SERVICES	Holds stakes in a Hong Kong retail bank and instock brokerages in several Chinese cities
MANUFACTURING	Owns China's largest producer of silk fabric and a small auto maker, and plans takeovers in telecom equipment
PROPERTY	Is developing apartment and office towers in Macao and owns hotels in Beijing and Hainan province
PHARMACEUTICALS	Controls two drugmakers in Sichuan and is buying another in Shenzhen



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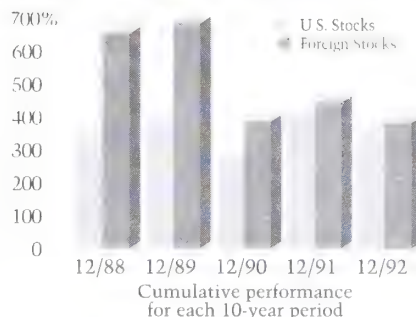
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European Stock Fund	27.2% 1 year	6.0% since inception 2/28/90	
Japan Fund	20.6% 1 year	2.2% since inception 12/27/91	



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* Foreign returns expressed in U.S. dollars. Sources: Foreign stocks – Morgan Stanley Capital International EAFE Index (Europe, Australia, Far East); U.S. stocks – Standard & Poor's 500 Stock Index. This chart is for illustrative purposes only and does not represent an investment in any T. Rowe Price fund.
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SOUTH KOREA: AN UNEXPECTED ALLY FOR BUSINESS

When Kim Young Sam took office as President last February, most Seoul insiders dismissed him as a lightweight with no government experience. Few thought he had the answers to South Korea's nagging problems: growing antagonism between government and business, labor unrest, and a flagging export economy. But as Kim's Feb. 25 inaugural anniversary rolls around, even the most hardened observers give him good grades for what he has achieved in his first year. They are impressed by the firm hand he has shown in clamping down on authoritarian generals and political corruption. And they are pleased by the lightening up on the government's involvement in business and the financial markets.

Kim's strong showing has helped lift spirits. Looking ahead, Koreans see promising signs of stronger economic growth, improved competitiveness, and lasting labor-management peace. Tensions with North Korea—which have been balking at opening its border to inspection—haven't dampened business confidence. Company after company says it is planning to boost capital spending. The stock market has risen 45% over the last year. Critics praise the President. "I think he's doing O.K.," says Hyundai Group Chairman Chung Ju-Yung, whose brother, Chung Ju-Yung, the company's founder, lost to Kim in the presidential election and then was charged with violation of election laws and embezzlement. "The business climate is pretty good. Things have settled down."

That's because Kim started his rule with a shakeup right after taking office. Within weeks, he purged Korea's military of the generals associated with previous regimes. Next, he revamped the repressive intelligence agency and installed a progressive intellectual as its head. Kim also launched a jihad against corrupt officials and politicians. A key element in this campaign was his adoption of a long-discussed "real-name system" that restricts the use of phony or borrowed names on financial documents. "Bribery has almost completely disappeared," remarks Lim Dong Seung, president of the Samsung Economic Research Institute.

While lashing out at corruption, Kim has also helped business by slashing interest rates to 12% from 17% and eliminating dozens of bothersome regulations. He has also courted Korea's business combines, or *chaebol*—inviting 30 of them to his Blue House residence for one of his famous wheat-noodle lunches. These executives had feared that populist Kim would try to cut the companies down to size,

but instead Kim seems set to lift credit restrictions and anti-monopoly rules on their core businesses—in the name of improving competitiveness. "The *chaebol* and government aren't in conflict," says Koo Suk-Mo, vice-president of the Korea Economic Research Institute, an affiliate of the Federation of Korean Industries. "There are many more occasions than before for cooperation and talking." In fact, Kim is in danger of seeming too cozy with the *chaebol*. "The general feeling is that he's too pro-big business," says Yang Bo Young, a 29-year-old hotel barmaid who voted for Kim.

That is not the only criticism of Kim one hears. Several of his early appointees, not subjected to proper scrutiny, soon had to resign when improprieties surfaced. Despite his democratic rhetoric, the President hasn't always been above using old techniques of repression. Hyundai, for instance, has been denied access to government credits to punish Chung Ju-Yung. "Kim threatens opponents with investigations and treats them like traitors even when they are sincere," says the head of a private economic institute. "He's less democratic than his image."

EXPORT PUSH. Kim's future ratings largely depend on economic performance. Unless economic growth soars this year, unemployment will become unacceptably high and the fragile labor-management peace could be shattered, says Lee Hahn Koo, president of Daewoo Research Institute.

Fortunately, many economists see the economy growing by 6% to 7% this year, up from last year's 4.7%—a level that many Koreans consider disastrous. The steam is coming from capital investment and exports, which rose 7.6% last year and should grow 8% again this year. The strong yen and productivity improvements are making Korean

ships, semiconductors, and autos attractive enough for the country to run its first current account surplus in several years.

Of course, Kim could easily run into roadblocks. He's not paying as close attention to North Korea as his predecessors—a dangerous tack because the North Koreans are considered capable of attacking Seoul, only 40 miles from the shared border. Kim also faces a battle with recalcitrant bureaucrats who will resist his efforts to further deregulate industry and the financial markets. And he's going to have to do something about inflation, which is approaching 6% because of strong growth. But for the first time, Koreans have a non-military President with a clear agenda. With the economy improving, they are likely to give him the benefit of the doubt.

By Robert Neff and Larri Nakarmi in Seoul



REPORT CARD

KIM YOUNG SAM

SUBJECT	GRADE	COMMENTS
DOMESTIC POLITICS	A	Restored confidence by cracking down on corruption and curbing business funding of politicians
ECONOMY	B	Cut regulations; liberalized financial markets; but inflation is rising
FOREIGN POLICY	C	Has largely ignored North Korea's nuclear threat
SOCIAL POLICY	C	Crime on rise; unemployment up; growing environmental problems

DATA: BUSINESS WEEK

WHITE KNIGHT IN A BLACK HAT?

Carl Lindner's "rescue" has some Great American investors steaming

Great American Communications Co. wasn't exactly a trophy property when financier Carl H. Lindner acquired it in 1987. Its earnings were falling, and its revenue growth was slow. But where others saw a foundered hulk, the Cincinnati millionaire and quintessential bottom-fisher saw a sunken treasure. Known at the time as Taft Broadcasting Co., it owned five TV stations and 15 radio stations in some of the fastest-growing markets in the country, including Tampa and Phoenix.

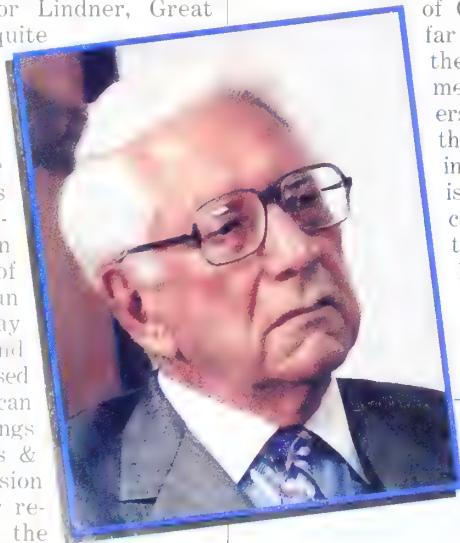
Unfortunately for Lindner, Great American never quite lived up to his great expectations. Instead of reaping huge rewards, Lindner has spent the past six years scrambling to cushion his losses—often at the expense of Great American shareholders, say some investors and even brokers who used to sell Great American stock. Company filings with the Securities & Exchange Commission show that Lindner repeatedly tapped the cash-strapped Great American for management fees and huge dividends and shuffled the company's assets to other Lindner affiliates.

DILUTED STOCK. Shareholders' biggest complaints against the 74-year-old Lindner, though, stem from Great American's prepackaged bankruptcy, which was approved by the courts on Dec. 23. The reorganization wiped out the holdings of a majority of shareholders. That's not unusual in a bankruptcy, since holders of common stock are the last in line behind creditors. What's different in this case, shareholders allege, is that Lindner used Great American to acquire much of the company's bonds before the bankruptcy. That left Lindner and his closely

held holding company, American Financial Corp., in firm control of Great American. "I didn't know I'd been had until after the prepackaged bankruptcy was announced," says James K. Arthur, an investor who lost over \$100,000 on the stock.

Lindner and AFC decline to comment on the shareholder allegations. But a source close to AFC asserts Lindner did everything possible to turn around Great American and salvage shareholder value. Meanwhile, the painful odyssey

of Great American is far from over. While the SEC won't comment, Lehman Brothers Inc. confirms that the SEC is investigating the sale of unregistered Great American stock handled by the securities firm in 1989. Lindner used



LINDNER
SHUFFLED
ASSETS

THE SAGA OF GREAT AMERICAN

the block to buy a chunk of Great American's bonds, but the stock issue diluted the value of existing shareholders' stakes. Representative John D. Dingell (D-Mich.) has twice written the SEC—mostly recently on Sept. 27—for a report on the transaction.

Lindner first became involved with Great American when he purchased 16% of Taft Broadcasting between 1986 and

1987 to help ward off a hostile takeover by a group led by Robert M. Bass, the Texas financier. Later in 1987, Lindner bought most of the company. With broadcasting ad revenues rising, he figured Taft would be a prize addition to his eclectic business empire, which ranged from Provident Bancorp to Ciquita Brands International, the banana giant.

The deal wasn't cheap, however. Lindner paid a staggering \$1.5 billion, or 10 times cash flow, to acquire 70% of the company's common stock. Much of the amount came from \$670 million in bank debt and \$560 million in high-yield bonds underwritten by Drexel Burnham Lambert Inc. Lindner, who renamed the company Great American, became chairman and CEO.

FADING HOPE. The timing of the deal couldn't have been worse. After the purchase, an economic slowdown crippled advertising. "We knew it was in trouble almost immediately," says a former Drexel investment banker. A year after the acquisition, Great American posted operating income of just \$44 million, almost \$100 million short of what was needed to meet its interest payments. For a while, Lindner acted as if he could still pull off a turnaround. To support Great American's over-the-counter share price of roughly \$10, he bought nearly 10 million shares from 1987 to early 1990.

But as the company's fortunes crumbled, Lindner's optimism seemed to fade. Unable to generate enough cash flow to meet Great American's debt obligations, he began selling assets—mostly to other Lindner-owned companies. Some shareholders complain that some of the assets

1987 Lindner acquires Taft Broadcasting for \$1.5 billion. Renames TV and radio station owner Great American Communications.

1988 Faced with stiff debt payments, Lindner begins selling Great American assets to his affiliates. Great American starts

paying \$2 million to \$3 million a year in management and insurance fees to American Financial Corp.

1989 Lindner starts buying back Great American bonds to ease debt load further. Lehman exchanges a block of company debt for \$44 million of Great American stock. Lehman then

purchases siphoned value from Great American. "This is another example of money going from one pocket to another," says Walter Giss, an investor who lost \$80,000. During recent bankruptcy negotiations, creditors raised questions about the propriety of the asset sales, though they could find nothing illegal with the deals, says one.

The asset shuffling was extensively

Lindner's AFC and its affiliates, for instance, might \$80 million worth of old Taft real estate, including a home in New Orleans and Great American's headquarters building. In November, 1989, Great American sold Mid-Continent Casualty Co. to AFC for \$1 million. Great American booked a \$4 million loss on deal.

In SEC filings, AFC says that all the transactions were reviewed by investment bankers for fairness. Greg C. Thomas, Great American's chief financial officer, also says the transactions were done to benefit Great American and that the company received fair-market value for each of the assets.

CK WOES. But asset sales weren't only sore point with shareholders. Despite Great American's cash shortfalls, Lindner collected between \$20 million and \$30 million a year in dividends on his preferred stock, according to filings with the SEC. He also sold back to company a chunk of preferred stock worth \$30 million in 1988. What's more, Great American paid AFC \$2 million to \$3 million a year in various fees for everything from casualty insurance to portfolio management, according to statements at American proxy statements. Some investors believed Lindner was harvesting what cash he could before the company went under. "It was like running



shareholders—including ones who bought part of the Oct. 11 issue—say they were never informed ahead of time of this debt-for-equity transaction, which ended up diluting their holdings. Some brokers also claim that they were led to believe that Lehman was pushing the stock because Great American was an undervalued company. "We were deliberately misled," fumes Paul Warehall, a former Lehman broker whose clients bought about a million shares of Great American stock.

Indeed, the shareholder suit also

"We were deliberately misled" about Lindner's debt-for-equity strategy

**PAUL WAREHALL
FORMER BROKER**

claimed that Great American purposely issued unregistered stock because it didn't want to "risk highlighting the company's financial problems through public disclosure" in a prospectus. Great American and Lehman insist the offering was legal and that the stock didn't have to be registered because it was a debt-for-equity swap and therefore exempted. A Lehman spokesman denies that the firm misled clients, saying that Lehman felt Great American shares were a good buy.

In December, a Chicago federal appeals court upheld a lower court's decision to dismiss the case because it wasn't filed within the one-year federal statute of limitations. Neither court ruled on the merits of the allegations. Terrence Buehler, the attorney for the shareholders, says he plans to file an

and its bonds were following suit.

With much of the company's non-broadcasting assets sold, Lindner decided to reduce his company's debt by buying up its bonds. And to finance the strategy, Great American engineered debt-for-equity swaps. The first occurred in October, 1989. Lindner repurchased \$50 million worth of Great American

unregistered shares to date. A shareholder law-suit alleges that the stock was registered to avoid disclosure of Great American's problems.

Investment sellers start driving Great American's stock. The price is hurt further by

additional offerings of new equity in exchange for debt. Stock price falls 80%, to under 2.

1991 Downturn in broadcasting industry has analysts wondering whether Great American can survive. Company repurchases an additional \$380 million in bonds.

1992 Stock price plummets to 16¢ a share. In July, Lindner discusses possible prepackaged bankruptcy with major creditors. By then, he's in a strong bargaining position, with much of the company's debt and its stock.

1993 Court approves prepack-

aged Chapter 11 on Dec. 23. Lindner maintains voting control of almost half of Great American's new stock.

1994 Great American shares start trading again on Jan. 4. Stock jumps 50% to 18 within days.

DATA BUSINESS WEEK

a burning house and saving your TV," says one creditor. Thomas argues Lindner and AFC were entitled to amounts collected.

Despite the efforts to pay down debt with asset sales, Great American continued to spill red ink. And before Wall Street turned bearish, Great American's stock tumbled more than 80% in 1990, to less than \$2 a share,

bonds from Lehman. To pay for them, Great American gave Lehman a block of 3.65 million unregistered shares worth \$44 million. Much of the stock was sold to individual investors on Oct. 11. Some brokers say Lehman paid an unusually generous commission of \$1 a share.

In a lawsuit filed against Great American and Lehman in U.S. District Court in Chicago in September, 1992, some

appeal with the Supreme Court. If that fails, Buehler says he will refile the complaint in Illinois state court, which has a longer statute of limitations.

Meanwhile, the October, 1989, stock sale has drawn the attention of the SEC. Warehall says he gave sworn testimony to the agency in mid-1992. At the time, he says, an SEC official also told him that they were "trying to link that with

The Corporation

a broader conspiracy to defraud" investors. A source close to AFC says the company was also questioned by the SEC last year, but the company hasn't been contacted by the agency since then. Lehman, too, says that it has been questioned by the SEC and that it's cooperating fully with the agency.

If the SEC believes Lindner violated securities laws, the consequences could be unusually serious. Without admitting or denying the charges, Lindner has already signed two consent decrees with the agency on previous dealings involving AFC, and he could face contempt charges for violating the orders. The latest decree was signed in 1979 following sweeping SEC allegations, including charges that he and AFC failed to disclose to shareholders several sweetheart loans to insiders at AFC.

Whatever legal uncertainties swirl around the stock offering, what happened to Great American afterward is no secret. Short-sellers began raiding the ailing company's stock. The short position in Great American rocketed to 2.6 million shares by mid-February, 1990, from 22,000 in September. That was roughly 25% of the shares not held by Lindner interests. As if that weren't bad enough, the 1992 shareholder lawsuit contended that many of the short-sellers borrowed the shares they were selling from Lehman. That left shareholders wondering how Lehman could promote the stock to investors while simultaneously lending it to short-sellers who were betting that the share price would plunge. The securities firm declines to comment on the episode.

BRAVE FACE. Even though Great American's stock was falling, Lindner remained bullish—at least in public. During the first two weeks of 1990, Lindner made what seemed to be a last-ditch effort to support the stock price with open-market purchases of 1.4 million shares for about \$12 million. In his chairman's message in the 1990 annual report, Lindner hailed strategies the company was using "to improve profitability and build shareholder value." The stock, however, continued to dive.

If shareholders were counting on

Lindner to persevere on their behalf, they were badly disappointed. By July, 1992, Great American and its creditors, including Continental Bank, Kemper, and Allstate Insurance, were discussing a possible prepackaged bankruptcy. "Prepacks" have become popular recently because creditors must agree to restructuring terms before a company receives Chapter 11 protection. Moreover, prepacks call for a two-thirds majority of bondholders to agree on a reorganization

much debt, Great American had sharply reduced the number of creditors who could lay claim to company assets. Lindner "wanted to come out of the reorganization with control," says Matthew C. Doherty, co-head of mergers and acquisitions at Barington Capital Group LP, who advised a group of Great American bondholders.

PYRRHIC DEFEAT? Lindner still had to make concessions. Creditors forced him to agree to a generous settlement, Doherty says, by threatening to hold up the bankruptcy by challenging the previous asset sales to AFC affiliates. Indeed, creditors received at least 90¢ for each dollar owed them.

Lindner and Great American's creditors finally cobbled together a reorganization plan and filed it with the U.S. Bankruptcy Court in Cincinnati last November. Creditors were happy with the final deal. But many individual shareholders were furious. True, Lindner suffered, having invested over \$300 million in Great American over the years. But he secured voting control over as much as 40% of the new company



"I didn't know I'd been
had until after
the prepackaged bankruptcy
was announced"

**JIM ARTHUR
INVESTOR**

plan. In a conventional bankruptcy, at least 80% of bondholders have to agree. That saves a lot of time and attorney fees: Companies that have sought prepacks remain in Chapter 11 for three to four months, compared with 2½ years in a conventional bankruptcy.

Of course, any bankruptcy still posed a risk to Lindner. Even after diluting his own stake in Great American with new stock offerings, he owned 40% of the company's common. Still, Lindner was in a strong position to negotiate a favorable deal. Lindner now owned nearly all the preferred stock as well as big pieces of two bond issues. And by repurchasing so

stock in the restructured Great American. By contrast, the other shareholders who had owned 60% of the old company came away with a measly 1% of the new Great American. Adding up Lindner's current stake, the preferred dividends, the asset sales, and fees, Lindner "didn't lose that much," says Phelps Hoyt, a bond analyst at Duff & Phelps.

Some shareholders suggest that Lindner may actually end up doing fairly well. Great American's debt has been whittled down to \$433 million, with annual interest payments now at a manageable \$42 million. Great American just might turn a profit by 1994, according to the company's reorganization plan. Even the market is starting to believe that the long-awaited turnaround may soon be on the horizon. Great American started trading again on January 4, and within days the company's stock rocketed up 50%, to 18 a share. That makes Lindner's 3.8 million shares worth \$70 million. Lindner, the bottom-fisher, may someday get his treasure after

By Michael Schroeder in Washington

John's losing his hair. His mission: get it back.

ASAP!
But how?
Weaving? No.
Transplant?
Not for him.
A hairpiece?
Never, never.
What John really
wants is his
own hair back.
And now he's learned,
for male pattern
baldness, only
Rogaine[®] has been
proven to regrow hair.

Rogaine[®] Topical Solution (minoxidil 2%) works in part by prolonging the growth of hair, which grows in cycles. With more hairs growing longer and thicker at the same time, you may see improved scalp coverage.

After one year, over three fourths of men reported some hair regrowth.

Dermatologists conducted 12-month clinical tests. After 4 months, 26% of patients using *Rogaine* reported moderate to dense hair regrowth, compared with 11% of those using a placebo (a similar solution without minoxidil — the active ingredient in *Rogaine*). After 1 year, 48% of the men who continued using *Rogaine* in the study rated their regrowth as moderate to dense. Thirty-six percent reported minimal regrowth. The rest (16%) had no regrowth.

Side effects were minimal: 7% of those who used *Rogaine* had itching of the scalp.

Rogaine should only be applied to a normal, healthy scalp (not sunburned or irritated).

Make it part of your normal routine.

Studies indicate that *at least 4 months of twice-daily treatment* with *Rogaine* are usually necessary before there is evidence of regrowth. So why not make it part of your normal routine when you wake up and go to bed, like brushing your teeth.

As you'd expect, if you are older, have been balding for a longer period, or have a larger area of baldness, you may do less well.

Rogaine is a treatment, not a cure. So further progress is only possible by using it continuously. Some anecdotal reports indicate that if you stop using it, you will probably shed the newly regrown hair within a few months.

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consultation with a doctor.***

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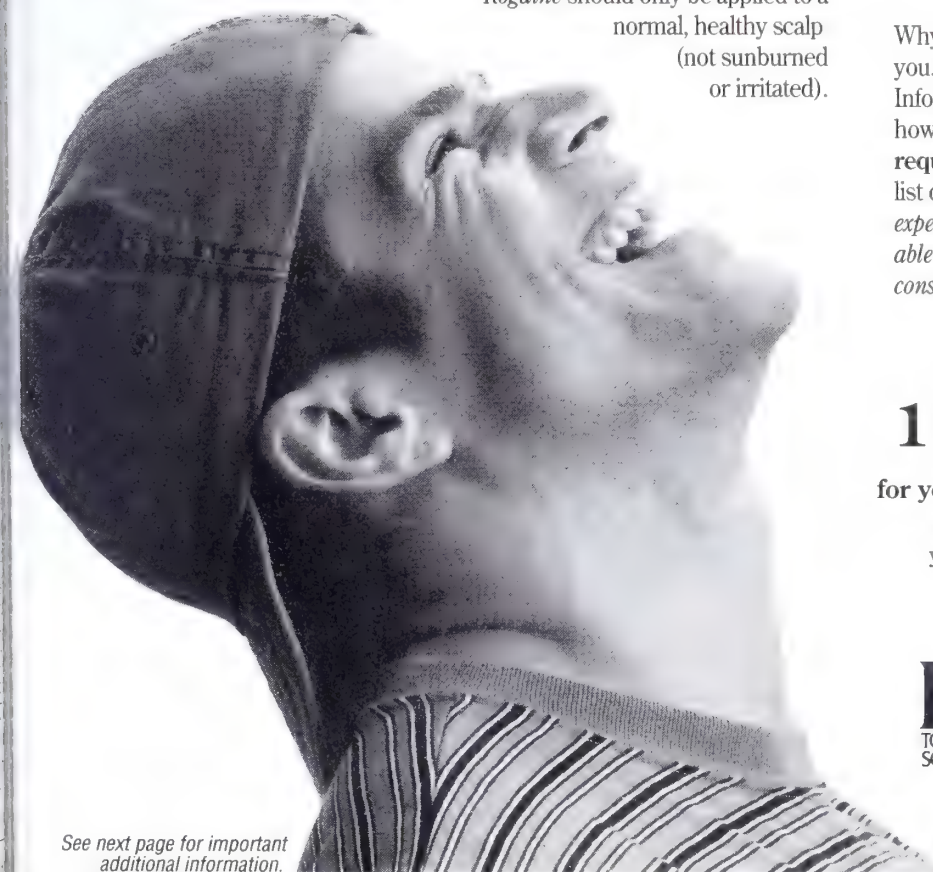
We'll also tell you how to find out if you're eligible for a free, private hair-loss consultation with a doctor.*

Rogaine[®]
TOPICAL
SOLUTION minoxidil 2%

See next page for important
additional information.

*Not available in all areas.

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Rogaine
TOPICAL SOLUTION minoxidil 2%

The only product ever proven to regrow hair.

What is ROGAINE?

ROGAINE Topical Solution is a prescription medicine for use on the scalp that is used to treat a type of hair loss in men and women known as androgenetic alopecia: hair loss of the scalp vertex (top or crown of the head) in men and diffuse hair loss or thinning of the front and top of the scalp in women. ROGAINE is a topical form of minoxidil, for use on the scalp.

How effective is ROGAINE?

In men: Clinical studies with ROGAINE of over 2,300 men with male pattern baldness involving the top (vertex) of the head were conducted by physicians in 27 US medical centers. Based on patient evaluations of regrowth at the end of 4 months, 26% of the patients using ROGAINE had moderate to dense hair regrowth compared with 11% who used a placebo (treatment (no active ingredient)). No regrowth was reported by 41% of those using ROGAINE and 58% of those using a placebo. By the end of 1 year, 48% of those who continued to use ROGAINE rated their hair growth as moderate or better.

In women: Clinical studies with ROGAINE were conducted by physicians in 11 US and 10 European medical centers involving over 600 women with hair loss. Based on patient evaluations of regrowth after 32 weeks (8 months), 23% of the women using ROGAINE had at least moderate regrowth compared with 9% of those using a placebo. No regrowth was reported by 43% of the group using ROGAINE and 60% of the group using placebo.

How soon can I expect results from using ROGAINE?

Studies show that the response time to ROGAINE may differ greatly from one person to another. Some people using ROGAINE may see results faster than others, others may respond with a slower rate of hair regrowth. You should not expect visible regrowth in less than 4 months.

How long do I need to use ROGAINE?

ROGAINE is a hair-loss treatment, not a cure. If you have new hair growth, you will need to continue using ROGAINE to keep or increase hair regrowth. If you do not begin to show new hair growth with ROGAINE after a reasonable period of time (at least 4 months), your doctor may advise you to discontinue using ROGAINE.

What happens if I stop using ROGAINE? Will I keep the new hair?

Probably not. People have reported that new hair growth was shed after they stopped using ROGAINE.

How much ROGAINE should I use?

You should apply a 1-mL dose of ROGAINE twice a day to your clean dry scalp, once in the morning and once at night before bedtime. Wash your hands after use if your fingers are used to apply ROGAINE. ROGAINE must remain on the scalp for at least 4 hours to ensure penetration into the scalp. Do not wash your hair for at least 4 hours after applying it. If you wash your hair before applying ROGAINE, be sure your scalp and hair are dry when you apply it. Please refer to the Instructions for Use in the package.

What if I miss a dose or forget to use ROGAINE?

Do not try to make up for missed applications of ROGAINE. You should restart your twice-daily doses and return to your usual schedule.

What are the most common side effects reported in clinical studies with ROGAINE?

Itching and other skin irritations of the treated scalp area were the most common side effects directly linked to ROGAINE in clinical studies. About 7 of every 100 people who used ROGAINE (7%) had these complaints.

Other side effects, including light-headedness, dizziness, and headaches, were reported both by people using ROGAINE and by those using the placebo solution with no minoxidil. You should ask your doctor to discuss side effects of ROGAINE with you.

People who are extra sensitive or allergic to minoxidil, propylene glycol, or ethanol should not use ROGAINE.

ROGAINE Topical Solution contains alcohol, which could cause burning or irritation of the eyes or sensitive skin areas. If ROGAINE accidentally gets into these areas, rinse the area with large amounts of cool tap water. Contact your doctor if the irritation does not go away.

What are some of the side effects people have reported?

ROGAINE was used by 3,857 patients (347 females) in placebo-controlled clinical trials. Except for dermatologic events (involving the skin), no individual reaction or reactions grouped by body systems appeared to be more common in the minoxidil-treated patients than in placebo-treated patients.

Dermatologic: Irritant or allergic contact dermatitis—7.36%. **Respiratory:** bronchitis, upper respiratory infection, sinusitis—7.16%. **Gastrointestinal:** diarrhea, nausea, vomiting—4.33%. **Neurologic:** headache, dizziness, faintness, light-headedness—3.42%. **Musculoskeletal:** fractures, back pain, tendinitis, aches and pains—2.59%. **Cardiovascular:** edema, chest pain, blood pressure increases/decreases, palpitations, pulse rate increases/decreases—1.53%. **Allergic:** nonspecific allergic reactions, hives, allergic rhinitis, facial swelling, and sensitivity—1.27%. **Metabolic-Nutritional:** edema, weight gain—1.24%. **Special Senses:** conjunctivitis, ear infections, vertigo—1.17%. **Genital Tract:** prostaticitis, epididymitis, vaginitis, vulvitis, vaginal discharge, itching—0.91%. **Urinary Tract:** urinary tract infections, renal calculi, urethritis—0.93%. **Endocrine:** menstrual changes, breast symptoms—0.47%. **Psychiatric:** anxiety, depression, fatigue—0.36%. **Hematologic:** lymphadenopathy, thrombocytopenia, anemia—0.31%.

ROGAINE use has been monitored for up to 5 years, and there has been no change in incidence or severity of reported adverse reactions. Additional adverse events have been reported since marketing ROGAINE and include eczema, hypertrichosis (excessive hair growth), local erythema (redness), pruritus (itching), dry skin/scalp flaking, sexual dysfunction, including decreased visual acuity (clarity), increase in hair loss, and alopecia (hair loss).

What are the possible side effects that could affect the heart and circulation when using ROGAINE?

Serious side effects have not been linked to ROGAINE in clinical studies. However, it is possible that they could occur if more than the recommended dose of ROGAINE were applied, because the active ingredient in ROGAINE is the same as that in minoxidil tablets. These effects appear to be dose related, that is, more effects are seen with higher doses.

Because very small amounts of minoxidil reach the blood when the recommended dose of ROGAINE is applied to the scalp, you should know about certain effects that may occur when the tablet form of minoxidil is used to treat high blood pressure. Minoxidil tablets lower blood pressure by relaxing the arteries, an effect called vasodilation. Vasodilation leads to fluid retention and faster heart rate. The following effects have occurred in some patients taking minoxidil tablets for high blood pressure.

Increased heart rate: some patients have reported that their resting heart rate increased by more than 20 beats per minute.

Salt and water retention: weight gain of more than 5 pounds in a short period of time or swelling of the face, hands, ankles, or stomach area.

Problems breathing: especially when lying down, a result of a buildup of body fluids or fluid around the heart.

Worsening or new attack of angina pectoris: brief, sudden chest pain.

When you apply ROGAINE to normal skin, very little minoxidil is absorbed. You probably will not have the possible effects caused by minoxidil tablets when you use ROGAINE. If, however, you experience any of the possible side effects listed above, stop using ROGAINE and consult your doctor. Any such effects would be most likely if ROGAINE was used on damaged or inflamed skin or in greater than recommended amounts.

In animal studies, minoxidil, in much larger amounts than would be absorbed from topical use (on skin) in people, has caused important heart-structure damage. This kind of damage has not been seen in humans given minoxidil tablets for high blood pressure at effective doses.

What factors may increase the risk of serious side effects with ROGAINE?

People with a known or suspected heart condition or a tendency for heart failure would be at particular risk if increased heart rate or fluid retention were to occur. People with these kinds of heart problems should discuss the possible risks of treatment with their doctor if they choose to use ROGAINE.

ROGAINE should be used only on the balding scalp. Using ROGAINE on other parts of the body may increase minoxidil absorption, which may increase the chances of having side effects. You should not use ROGAINE if your scalp is irritated or sunburned, and you should not use it if you are using other skin treatments on your scalp.

Can people with high blood pressure use ROGAINE?

Most people with high blood pressure, including those taking high blood pressure medicine, can use ROGAINE but should be monitored closely by their doctor. Patients taking a blood pressure medicine called guanethidine should not use ROGAINE.

Should any precautions be followed?

People who use ROGAINE should see their doctor 1 month after starting ROGAINE and at least every 6 months thereafter. Stop using ROGAINE if any of the following occur: salt and water retention, problems breathing, faster heart rate, or chest pain.

Do not use ROGAINE if you are using other drugs applied to the scalp such as corticosteroids, retinoids, petrolatum, or agents that might increase absorption through the skin. ROGAINE is for use on the scalp only. Each 1 mL of solution contains 20 mg minoxidil, and accidental ingestion could cause unwanted effects.

Are there special precautions for women?

Pregnant women and nursing mothers should not use ROGAINE. Also, its effects on women during labor and delivery are not known. Efficacy in postmenopausal women has not been studied. Studies show the use of ROGAINE will not affect menstrual cycle length, amount of flow, or duration of the menstrual period. Discontinue using ROGAINE and consult your doctor as soon as possible if your menstrual period does not occur at the expected time.

Can ROGAINE be used by children?

No, the safety and effectiveness of ROGAINE has not been tested in people under age 18.

Caution: Federal law prohibits dispensing without a prescription. You must see a doctor to receive a prescription.

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EATER

TORONTO: GREAT WHITE NORTH WAY

It comes out of the wings as No. 3 in world theater



NADA'S REVIVAL OF *SHOW BOAT* MAY GROSS \$1 BILLION—IN TORONTO AND ON TOUR

When *Show Boat* opened on Broadway in 1927, it heralded the birth of the modern musical. It was a story with a message, not merely a variety show. So it's only fitting that a revival of *Show Boat*, acclaimed as the most ambitious production since the original, might make history again. This time, the \$6 million show, which opened in Toronto in October, could proclaim Live Entertainment Canada Inc.'s arrival as a major player on the world stage. Then, as *Show Boat* goes to Broadway next fall and across the U.S., Europe, and Australia, it could gross \$1 billion, boasts LivEnt chief Executive Garth Drabinsky. Across town, David Mirvish—Drabinsky's archrival—is not about to be upstaged. His Toronto production of *Crazy You* opened on Jan. 5 "to bigger audiences than the show earned in London or New York," he gloats. Mirvish predicts *Crazy* will break even after just 30 weeks, vs. 40 on Broadway.

A decade ago, Toronto was just another stop for weary stars of Broadway road shows, which might gross \$50 million a year in ticket sales. Now, thanks largely to Drabinsky and Mirvish, it's the world's No. 3 theater center, after

New York and London. Especially for musicals. In the season ending in May, musicals are expected to gross about \$150 million in Toronto, far outshining Los Angeles and Chicago, its nearest North American rivals after Broadway. "No other city has seen this kind of growth," marvels Cameron Mackintosh, who staged *Cats* and *The Phantom of the Opera* and is considered the world's top theatrical producer.

In 1993, both Mirvish and Drabinsky inaugurated huge theaters that surpass any house on the Great White Way. And Toronto now has four open-ended musicals: Mirvish's *Miss Saigon* and *Crazy* and Drabinsky's *Show Boat* and *Phantom*. Last year, these shows drew some 1 million Americans to Toronto,

and theater now pumps about \$1 billion a year into the economy.

There is one rub: Toronto's growth has been fueled by productions of the most successful musicals ever—including *Phantom* and *Les Misérables*. Cautions Mackintosh: "There aren't that many of these shows, and people shouldn't assume that the assembly line will keep churning them out."



LIVENT CEO DRABINSKY

True, but Drabinsky and Mirvish have created a few hits, too—and there are more to come. In 1992, LivEnt originated *Kiss of the Spider Woman* in Toronto and later moved it to London and Broadway, where it won seven Tonys in 1993. On Jan. 27, Drabinsky announced he would produce a musical based on E. L. Doctorow's *Ragtime*, probably in 1996. Mirvish won raves in Toronto for his production of *Dry Lips Oughta Move to Kapuskasing*, a drama about life on a Canadian Indian reserve. Mirvish says he's also planning to develop musicals.

GOING UP. And they aren't the only acts in town. Toronto boasts 140 theater and dance companies, vs. two in 1962. Most are nonprofit, but not all. Marlene Smith, for example, who set off the boom with her 1985 production of *Cats*, will raise the curtain on a \$3.4 million staging of *Napoleon*, Canada's first original megamusical, on Mar. 23.

Still, Drabinsky, 44, and Mirvish, 49, are the key players. Mirvish, who first made his mark as an art dealer, formed Mirvish Productions in 1986. He then began staging big musicals at the Royal Alexandra, which his father had bought in 1963. By 1989, he was co-producing *Les Misérables* with Mackintosh in Toronto. The show, seen by more than 4 million people in Canada, grossed more than \$150 million. Encouraged, Mirvish built a theater for his production of *Miss Saigon*—the \$17 million, 2,000-seat Princess of Wales, which opened last May. It was the first privately financed, free-standing theater built in North America since 1972, according to the League of American Theatres & Producers.



ARCHRIVAL MIRVISH

If anything, Drabinsky is more ambitious. While in his 30s, Drabinsky vaulted to prominence as CEO of Cineplex Odeon Corp., which he built into North America's No. 2 chain of movie houses. When his bid to take the company private was rebuffed in 1989, he and his veteran partner, Myron Gottlieb, bought Cineplex' live-entertainment unit for \$77 million.

LivEnt had just opened *Phantom* at the 2,200-seat Pantages Theater, which Cineplex had spent \$17 million to restore. The show has now grossed more than \$250 million, making it the most successful production in Canadian history—and fueling Drabinsky's plan to turn LivEnt into a global theatrical juggernaut.

LivEnt's strategy starts with controlling theaters. In addition to the Pantages, LivEnt has a 40-year contract to manage the new \$38 million North York

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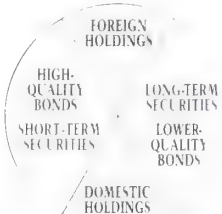
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Performing Arts Center, which includes the 1,800-seat theater that's home to *Show Boat*. In November, it announced plans to erect an 1,800-seat theater in Vancouver. LivEnt further boosts revenues with road shows. In 1992, its production of *Joseph and the Amazing Technicolor Dreamcoat* grossed \$7.2 million in Minneapolis, four times the previous box-office record there.

Although Mackintosh doubts *Show Boat* will gross \$1 billion—only *Cats*, *Phantom*, and *Les Misérables* have done that—LivEnt is making a profit. The results allowed Drabinsky last May to raise \$22.5 million in an initial public offering. With LivEnt predicting profits of \$6 million, on sales of \$90 million in 1993, the shares have soared to 11—67% above the offering price—on the Toronto Stock Exchange. Mirvish won't disclose his financial results but insists he's making money despite some losses.

THREE CITIES WHERE THE PLAY'S THE THING

NEW YORK
BROADWAY · LONDON · TORONTO

SEATS	44,000	50,000	12,000
Commercial theaters			
GROSS REVENUES	\$345	\$300*	\$150
Estimates for current season in millions			

*Latest available figure is for 1992 season

DATA: THE LEAGUE OF AMERICAN THEATRES & PRODUCERS
LIVE ENTERTAINMENT OF CANADA INC., THE SOCIETY OF LONDON THEATRE

If those results look good compared with Broadway, where two shows out of three fail to recoup their costs, the Canadians do have some big advantages. Top seats in Toronto cost nearly as much as Broadway's—about \$65—but production costs are much lower. Mirvish spent just \$5.3 million on his lavish production of *Crazy*, vs. an \$8.3 million cost on Broadway. Toronto benefits from lower labor costs and from less rigid work rules.

Mirvish and Drabinsky still face the theater's eternal challenge: How do you keep them coming back for more? One of their hits close, if the replacement shows "are not that potent, there is no reason to believe that the experience in Toronto will be that much different from another city," warns Gerald Schoenfeld, chairman of the Shubert Organization, Broadway's largest theater owner. The audiences may dwindle, shows may lose money, and Toronto could face a theatrical glut. Mirvish and Drabinsky insist they can avoid this plight. But it will be the biggest challenge yet.

By William C. Symonds in Toronto



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MERRILL LYNCH'S MAN IN LILLEHAMMER

At 32, Wall Streeter Connor O'Brien schusses into the Olympics

Connor O'Brien had a brief moment of doubt as he hurtled to the ground at 70 mph one weekend in December. Maybe he should have practiced this route a few more times, he thought. Maybe he should have taken leave from his investment-banking job to train harder. Maybe it was a dumb idea to compete as a downhill racer in the Olympics at age 32, almost 10 years after he had traded a career on the slopes for one on Wall Street. Maybe he should just quit, go home, and admit defeat....

Naw. After all, he hadn't become an Estonian citizen for nothing. Two days after his fall at Italy's Val Gardena, O'Brien, now with two broken ribs, managed to finish a race that qualified him for the Olympics—on the Estonian ski team. "Most people who move into a business career from sports never get a chance to look back," he says. "I'm not trying to relive anything. I just want another flirt with the sensation of blasting down a hill at 80 mph."

On Feb. 13, O'Brien will have that chance—in the men's downhill ski competition in Lillehammer, Norway. He'll be competing against such top teams as Austria and Norway, whose members are roughly 10 years his junior. "Connor's extremely bright," says Brent Norton, who grew up with O'Brien in Montreal. "If he sees a loophole, he'll be the first to make it work."

GLORY DAYS. Some loophole. Realizing that he was unlikely to make the U.S. team, O'Brien became a citizen of Estonia—his mother's country. He had used a similar tactic to get on the British team for the 1984 Olympics. (His father is a British subject.) It's not unheard of for athletes to switch nationality to qualify for the Olympic Games. But this year,

the International Olympic Committee tightened the qualifying requirements for all events. For O'Brien, that meant racing just seconds slower than the ranking downhill racers.

With no time off work, his weekends became a precious commodity. He needed to get in as many

Unlikely to make the U.S. team, O'Brien became a citizen of Estonia—his mother's country—to qualify for the games



as possible to cut his time. After a good start in November in Park City, Utah, where he posted his best time in 10 years, the Val Gardena mishap took its toll: His ranking was a far cry from his glory days in the top 100. Even so, he made the top 500—enough to get on the Olympic team.

O'Brien's friends always knew he was daring. But when he decided last year he was going to ski in the Olympics and

still keep his job as vice-president of Merrill Lynch & Co.'s energy group, people thought he had gone too far. "I thought he was joking when he first brought it up," says Rob D. Patton, managing director of the group. "It's unusual for someone in this profession to take the time to pursue something like this."

For O'Brien, however, it was the chance to pull just one more stunt. Last year, the time he aced a creative-theater course by rappelling into an eighth-floor classroom through the window.

SLOPE WORK. O'Brien has been skiing almost since he could walk. He was competing by age 8 and winning local contests by age 12. He skied with the Quebec Ski Team in 1980-81 and, as a undergraduate, with the Middlebury College team in 1982-83. His career peaked when he took third in the International Ski Federation downhill competition in 1984 and when he ranked 33rd in the 1984 Winter Olympics at Sarajevo. Injuries forced him to retire after the 1985-86 season.

Fortunately, the qualification that made him a world-ranked skier translated well to Wall Street. At 23, he headed to Dartmouth College's Anderson business school and from there to Lehman Brothers Inc. before landing at Merrill Lynch. The same drive helped him juggle work and training. "In Europe, I had the benefit of a six-hour time difference," he says. "I could train—and then get in shape of a workday on New American time." He would often clinch deals over a cellular phone and fax calls to New York.

All of this for what? O'Brien isn't likely to win a medal, much less to win home a medal. "If he places in the top 30, it would be an extraordinary achievement," says Stan Cohen, editor of *Ski Magazine*. "That would be great," O'Brien replies. "My main goal is to enjoy the whole experience and ski my best."

Afterward, it will be back to business as usual. "It will have to be, if he wants to be an investment banker," says Patton. But after broken ribs and 80 mph speeds, the life of a jet-setting, week-a-week investment banker may be a welcome relief.

By Julie Tilsner in New York

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LOST IN SPACE: UNCLE SAM'S CRAZY BUILDING SPREE

Fancy new offices are further battering real estate markets

Construction of office buildings in downtown Atlanta has ground to a halt. It's no surprise, given a vacancy rate hovering near 30%. Yet one developer is blithely plowing ahead with plans for a \$300 million, 1.3 million-square-foot skyscraper: Uncle Sam. When the Atlanta Federal Center opens its doors in 1997 to 8,000 government workers, it may doom hopes for a near-term rebound in the local commercial real estate market. "It is a misallocation of resources," says Atlanta real estate consultant David F. Haddow. "You've got whole buildings that will become potential dinosaurs overnight."

As Washington goes on a construction spree, other cities across the country may also start to resemble Jurassic Parks. Although many markets are hung over from the real estate orgy of the 1980s, \$10 billion in federal projects either are in progress or have secured funding. That means Washington isn't taking advantage of bargain properties available in many markets. Moreover, by building new space, Uncle Sam is helping to lower property values and threatening the solvency of some private landlords. "It defies all logic," says Thomas Schatz, president of Citizens Against Government Waste, a Washington advocacy group.

PAMPERED JUDGES. Of course, Washington has a logic all its own. Contractors and unions, who often are heavy campaign contributors, promote projects now that privately financed construction has dried up. Congress has been unwilling to give government agencies the flexibility needed to snap up bargain properties. And despite rhetoric about cutting the budget deficit, lawmakers thrive on pork-barrel building projects, which cre-



THE GSA'S JOHNSON: CONGRESS WON'T LET HIM KILL PROJECTS

ate construction jobs in the district and help revive depressed downtown areas. Even reform-minded Clinton officials find it hard to kill costly developments: In November, members of Congress scotched plans by the new head of the General Services Administration, Roger W. Johnson, to delay or kill 10 proposed federal courthouses. "I hadn't recognized how big a problem it is in Congress to rescind something," admits

Johnson, a former chief executive of Western Digital Corp.

To be fair, a number of these projects were planned long ago, when real estate markets were more robust. And some of the new buildings, particularly the courthouses, are needed. With the dockets of most federal courts swollen with drug and other criminal cases, for instance, the government estimates it may need to build \$7.5 billion in new courts over the next 10 years. Judicial officials say that existing commercial buildings don't meet the security requirements of courts.

But the General Accounting Office, Congress' investigative arm, says judges are requesting 52% more space than they need. Others critics charge that the judiciary is demanding such lavish amenities that costs are soaring out of control. New federal courthouses—which have been known to include nonworking marble fireplaces, rooftop gardens, and private kitchens and showers—are built at an average \$230 a square foot, versus \$96 for a comparable state or local courthouse. Plans for a \$218 million federal courthouse in Massachusetts include a public boat dock providing access to Boston Harbor. And a \$61 million courthouse planned for Charleston, W. Va., will sport an illuminated, perforated-steel dome that's 25% larger than the one on the U.S. Capitol. "We're building Taj Mahals that we don't need," complains Senator Byron L. Dorgan (D-N. D.).

MOVIES, TOO. The most stunning example of waste, government watchdogs say, may not be a courthouse, however. The honor is reserved for the International Center for Trade & Technology, going up in Washington in the last free space between the White House and Capitol Hill. Conceived by Senator Daniel P. Moynihan (D-N.Y.) in 1987, the \$360 million project was designed to house several federal trade agencies, foreign trade offices, and a new U.S. commission that would promote exports.

But when costs skyrocketed, upping the rent tenants would have to pay, U.S. agencies began to pull out. The GSA scrambled to convert it to a general purpose federal building, but no one wanted to cover the costs of such frills as lap pools, movie theaters, and world-class French restaurant.

The project received a new lease on life when the export-minded Clinton Administration revived its original mission. But priced at more than \$650 million, making it one of the costliest federal

WASHINGTON'S BIGGEST BUILDING BOONDOGGLES

Project	Cost	Problem
INTERNATIONAL CENTER FOR TRADE & TECHNOLOGY Washington, D.C.	\$656 million	The government's priciest-ever building, even though proposed lap pools, theaters, and French restaurant are out
FEDERAL CENTER Atlanta	\$300 million	Adds 1.3 million square feet to downtown with 30% vacancy rate
NAVAL UNDERSEA WARFARE CENTER Suffolk, Va.	\$27 million	Was built even as the Navy prepared to relocate employees to Rhode Island
FEDERAL DISTRICT COURT Seattle	\$224 million	At \$299 per square foot, it's three times pricier than nearby state courthouses

DATA: BUSINESS WEEK

ldings ever—it's a boondoggle, crit-charge. The project is "a monument the fiscal stupidity of federal construction policy," says Peter Sepp, an al at the Washington-based Nation-taxpayers Union. "We probably would re done better taking that money and nting tax breaks to companies that port."

The view is far different on Capitol l. North Dakota's Dorgan says he ld find only three co-sponsors for a ding Senate bill that would impose a -year freeze on new federal leasing construction. That may be because er lawmakers are busy fighting for struction projects for their own dists: Last summer, Congress appropri- d \$925 million for new buildings, rly 50% more than the previous year. ikewise, efforts by the GSA's Johnson low the building binge face an uphill le. Shortly after taking office last s, he boldly froze nearly 200 pending racts, a move many observers took a signal that radical surgery was ad. But Johnson's first progress re-

New federal courthouses
ave appointments ranging
rom marble fireplaces to
private kitchens

, issued in December, recommended ng only five projects—including a ing garage in Iowa and a \$2 mil- courthouse in the Virgin Islands.

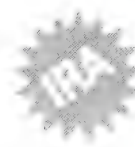
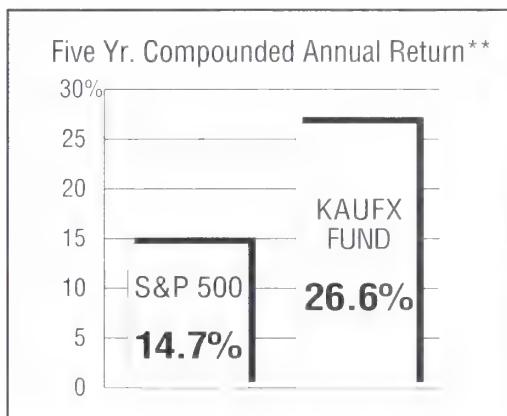
DED. The report recommended only or cost cuts in 70 other projects, tog- \$624 million over 30 years. At- ta's Federal Center, for instance, was ced by 300,000 square feet, chop- just \$80 million off its \$380 million tag. Congressional sources say that nd of lawmakers, including Senator ert C. Byrd (D-W.Va.) and Repre- tive Peter J. Visclosky (D-Ind.), suc- ally appealed to the White House to back Johnson's attempts to kill or one courthouses in their states. Vis- y defends his action, noting that hammond, Ind., courthouse was first oved by the Bush Administration hat it will save \$13 million over its "This building is needed," he says. hnson says he still intends to find to cut the government's real estate . "I am here as a reformer," he . He may be determined and well- tioned. But with Congress in the s protecting its pet projects, don't on Uncle Sam to turn off the s and bulldozers anytime soon.

By Dean Foust in Washington

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CINDY CRAWFORD IN A PEPSI SUPER BOWL AD: THE BRAND MAY BE OVERDOSE FOR A NEW ADVERTISING IDEA



DO KNOWS TEA: A LINKUP WITH LIPTON IS A MAJOR SUCCESS

DOES PEPSI HAVE TOO MANY PRODUCTS?

A flurry of new wares may be diverting it from flagship colas

They got the wrong one, baby. Wrong taste. Wrong name. Wrong packaging and advertising, too. But Craig E. Weatherup, chief executive of Pepsi-Cola North America, isn't ready to call it quits yet on Crystal Pepsi, the company's year-old stab at creating a clear cola. In late March, the domestic soft-drink unit of PepsiCo Inc. will relaunch the product with new ads, new packaging, and, most important, a new taste. "It will still be Crystal," Weatherup says. "And it will still be clear."

But it won't be Crystal Pepsi anymore—just "Crystal, from the makers of Pepsi." And gone will be the hints of cinnamon, ginger, and pepper that gave Crystal Pepsi its peculiar noncola flavor. Instead, Crystal will be reincarnated as "a citrus cola." Translation: Crystal will represent Pepsi's latest effort to blunt Sprite and Seven-Up.

Will it fly? Weatherup himself isn't entirely sure. In its first year, Crystal Pepsi won just 1.1% of the \$48 billion U.S. soft-drink market—only half what Pepsi had projected. "I'm more

than a little disappointed," the affable cola warrior says. "We were not able to satisfy people's taste." Still, he doesn't rule out throwing in the towel if Crystal doesn't do better this time around.

Crystal Pepsi's woes underscore the risks in the slow-growth soft-drink business these days. The beverage battle isn't a simple, one-on-one cola war anymore. Instead, it has become a complex contest spread over multiple fronts with many competitors. For the past three years, Pepsi has been at the forefront, with an ambitious multibrand strategy that has led it into everything from fruit juices to iced tea to sports drinks. It has made some inroads. Pepsi's iced tea,

a joint venture with Unilever PLC's Lipton division, is jockeying Snapple for leadership of the \$1 billion tea market. The payoff: PepsiCo announced on Feb. 1 that earnings for its U.S. beverage division jumped 17%, to \$937 million in 1993. Increased efficiencies from a restructuring and reduced packaging costs helped earnings. But domestic beverage sales also rose 8%, thanks mostly to new products.

NEW LIFE. But underneath that effervescent surface, bottlers and beverage-industry consultants are beginning to sound the alarm. They worry that the flurry of new products has diverted Pepsi's attention from the mother brand. Pepsi and Diet Pepsi still account for 60% of the soft-drink unit's domestic operating earnings, says Andrew Conway, a beverage analyst at Salomon Brothers Inc. But both the cola brands lost market share in supermarkets last year, according to Jesse Meyers, editor of *Beverage Digest* (table). Archrival Coca-Cola Corp.'s Coke Classic, in contrast, increased its share. Diet Coke slipped—last year it didn't have an ad campaign

for nine months last year.

Despite the strong overall sales results, the erosion of Pepsi's flagship brand makes some investors nervous. "I wouldn't want to turn into a Marlboro situation, where the share deteriorates to the point where they have to do something urgent and desperate," says Mel Hughes, an analyst at Stein Roe Farnham Inc., which owns



million shares of PepsiCo as of September.

And now is no time to be ignoring as, because the market has been showing signs of new life after years of sluggish growth. Supermarket volume of all colas increased 4.4% in 1993, according to *Beverage Digest*. With the sales rising and the cola wars heating up, Pepsi's marketers must show that they can reenergize the core cola brands while exploiting various niche markets. "Last year, they put too much effort on Crystal and not enough on Pepsi," says James C. Lee Jr., chairman of Frito Rock Co. in Birmingham, Ala., a Pepsi bottler. "I want to see them concentrate more on regular Pepsi and maintain Dew—the things we built our business on."



Meantime, arch-rival Coca-Cola has been concentrating plenty. Having shaken up its ad-agency roster and marketing department, Coke is beginning to flex its muscles. Last month, Diet Coke got new ads. During Super Bowl week, Coke hooked up with regional cable-TV networks to air

α-Cola BIG TV, an ad-supported block of game-related programs. Coke Classic and Diet Coke will have a major presence in the Winter Olympics. And Coke is gearing up heavy consumer promotions for the summer soft-drink season.

FOR TWO. Weatherup allows that multibrand strategy has distracted the company. "Our people can only do so many things," he says. "If they're doing extra Crystal displays, they can't build as many Pepsi displays." But he says that the company's results show the basic strategy is still sound.

Pepsi's year-old joint venture with Weatherup to distribute bottles and cans of teas helped fuel the healthy sales growth in 1993. For the 52 weeks ended July 11, Pepsi-Lipton had captured 23% of supermarket iced-tea sales, according to Nielsen Marketing Research. The deal has catapulted to near the top of the \$1 billion iced-tea market, which has been growing at a rapid pace.

It's too early to tell whether Pepsi can enjoy similar success in sports drinks, where it's going up against Gatorade. Weatherup says he wants Pepsi's entry, All Sport, to get a 20% share of the \$900 million market. But he has a long way to go. All Sport is only available in 25% of the market. Weatherup says the brand's share doubled since last year, and he will

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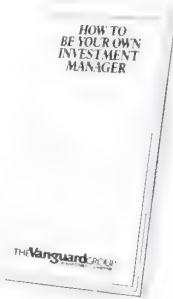
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"resolve in a couple of months" whether it will roll nationwide. Still, for the months ending October, 1993, All Sp generated just \$6.5 million in supermarket sales, according to Nielsen.

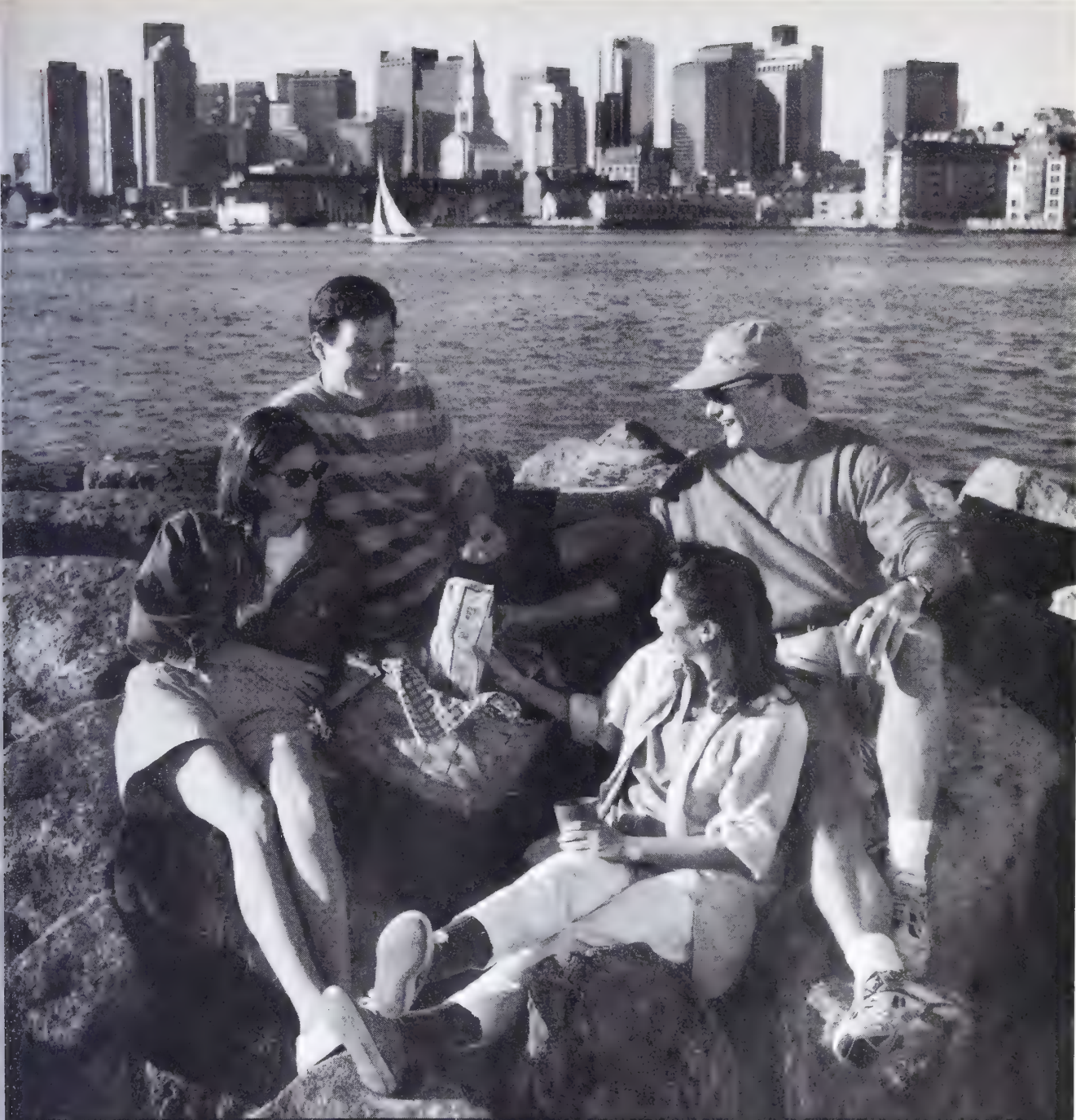
Pepsi is also rolling out Ocean Spray lemonade and testing a carbonated juice, Splash, as part of a joint venture with Ocean Spray Cranberries Inc. In 1993, roughly two-thirds of Pepsi's volume growth came from noncarbonated beverages, says Conway, the Salomon Brothers analyst. "That could be distracting them," he says. But long term, it should be "very profitable."

LAPSED FANS. Even so, he says, such new ventures still represent only a \$100-million-a-year business for Pepsi—where domestic beverage sales are \$5.9 billion. And many Madison Avenue sources think that core cola business is overdone for a big ad idea. It has been four years since Diet Pepsi launched the "You get the right one" campaign with Richard Charles. Longtime ad agency BBDO Worldwide Inc. is working on new commercials for Pepsi and Diet Pepsi. Its Super Bowl ads—which featured Cindy Crawford, chimps, and a mock Woodstock revival—got mixed reviews. And it has been years since Pepsi electrified the ad world with its star-studded "choice of a new generation" campaign.

Weatherup says he is happy with BBDO. But he says that more must be done to bring back cola drinkers who have drifted away to new-age drinks. "We have to bring something to the table to stimulate the category," he says. He has high hopes for using fresh ingredients to spur diet soda sales. And he is enthusiastic about new packaging ideas, such as the Big Slam, a liter bottle with a wide mouth—and the Cube, an easy-to-carry, cube-shaped, 24-can pack.

Tinkering with products old and new is nothing unusual in the syrup-and-soda biz. Weatherup points out that Pepsi spent years trying to perfect Mount Dew, which claimed 2.9% of supermarket soft-drink sales in 1993. Other Pepsi products—Jake's, Pepsi Light, and Pepsi a.m.—went through several mutations before being shelved for good. But Crystal's weak performance may be sending a different signal. Tom Pirko, a beverage consultant who has worked for Pepsi, thinks Pepsi may have misinterpreted the 1990s zeitgeist. "Crystal had all the good values—it was purity without caffeine or color," Pirko says. "But when you look at the '90s more carefully, people are still loading up on fat, sugar and caffeine." In other words, some of Pepsi's best assets may be those old-fashioned colas.

By Laura Zinn in Purchase, N.Y.



HELPING BOSTON CLEAN UP ITS HARBOR IS NO TEA PARTY.

The Boston Harbor project is one of the most ambitious environmental projects of this decade. When completed, it will include the second-largest wastewater treatment plant in the United States, capable of treating 1.3 billion gallons daily; and a 9.5-mile discharge tunnel over 24 feet in diameter bored more than 400 feet beneath the water's surface. An estimated 2.5 million people ultimately will be served by this facility.

ICF Kaiser, the construction manager for this massive effort, is facing tough challenges – time and space – to reclaim the harbor. The construction schedule is mandated by a federal court order. And the construction site is a scant 180 acres on Deer Island, with limited access.

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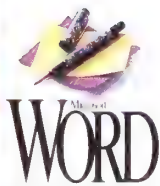
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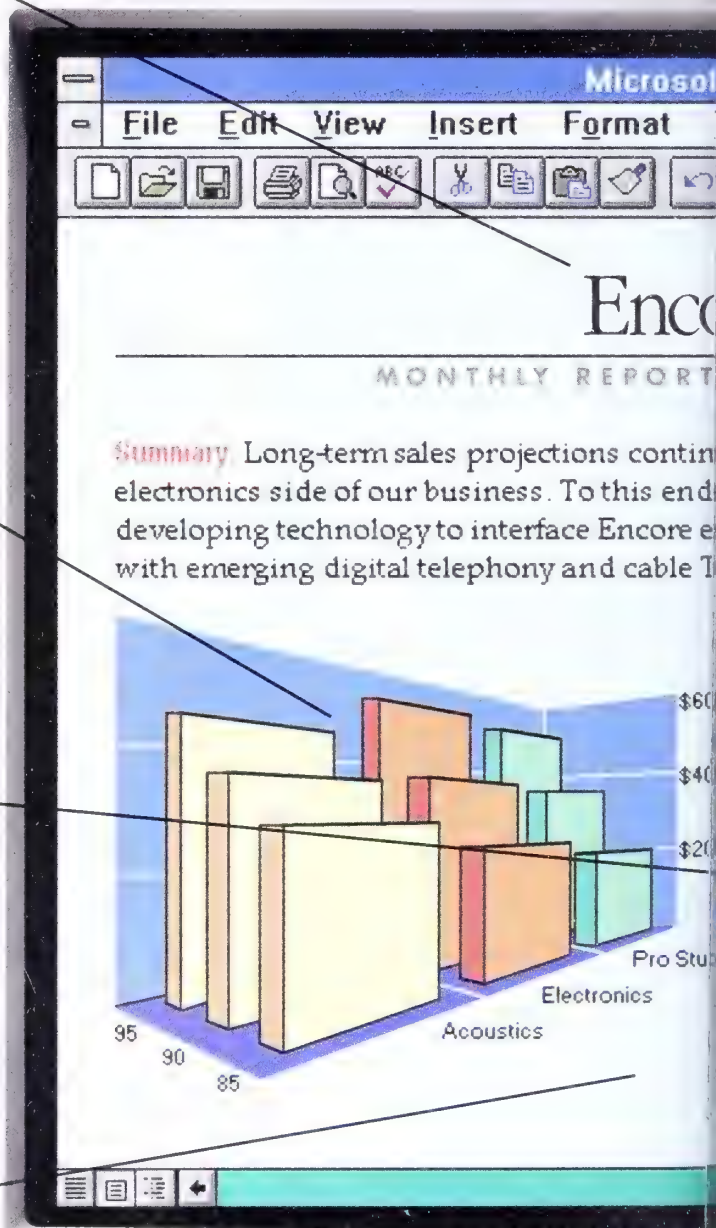


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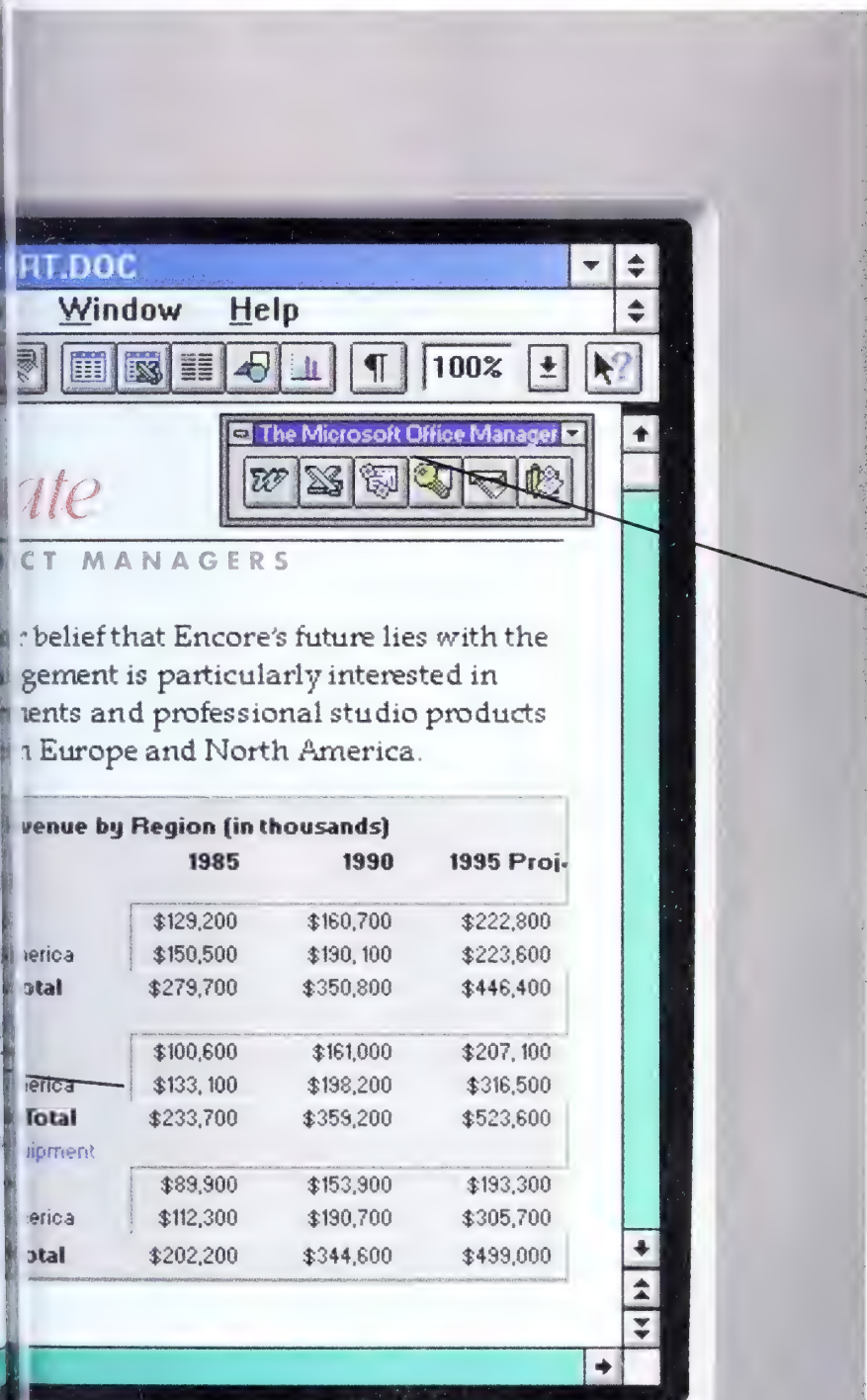
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IS THE NFL LEAVING FOOTSTEPS?

The nimble Canadian Football League charges into the U.S.

If you found yourself nodding into the onion dip during the second half of Super Bowl XXZzzzz, take heart: Relief from the NFL blahs may be on the way.

On the heels of what was roundly criticized as a snooze of a pro football season in the U.S., the Canadian Football League is mounting the biggest expansion blitz in its 102-year history. Last summer, the Sacramento Gold Miners became the league's first-ever U.S. club. Las Vegas has already been awarded a franchise for the coming season, which kicks off in July. And by mid-February, the league hopes to add two more U.S. teams. Right now, Baltimore seems a no-brainer, while negotiations are continuing with prospective owners in Orlando and Capeport, La.

ON STAKES. By 1997, CFL Commissioner Harry W. Smith hopes to have "9 or 10 U.S. teams." That would set the stage for a championship game that would pit the best U.S. team against the top Canadian squad. By then, the CFL will almost certainly have a new name, perhaps the North American Football League.

It's a high-stakes game," scoffs Michael Megna, Milwaukee-based sports raider and analyst. Higher stakes with deeper pockets in the CFL's owners have already proven how tough it is to take on the National Football League on its own field: Consider the reformed United States Football League. It hung up its shins in 1985 after three expensive years. But the league contends it has come with a playbook that might enable it to prosper in the NFL's shadow.

This is not a copycat league," Smith insists. For one thing, the Canadian game is a breed apart. Teams field 12 players and have just three downs to move the ball 10 yards. The field itself is long-



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DATA: CANADIAN FOOTBALL LEAGUE LTD.

HEISMAN WINNER FLUTIE IS THE CFL'S BIGGEST STAR

er (110 yards) and wider, making it harder for the defense to shut down an offensive attack. And with 20 seconds between plays, vs. 40 in the NFL, there's faster action and more scoring. The game favors players more nimble than the 300-pound gladiators who cause so much gridlock in the NFL. The CFL's biggest current star, former Boston College (and New England Patriots) quarterback Doug Flutie, passed for a record 6,619 yards in the 1991 season, more than Dan Marino's all-time NFL record of 5,084. Says James Curry, a

CBC-TV football announcer: "The CFL is built for fans who like to see points put up on the scoreboard."

Unlike the USFL, which had franchises in a number of solid NFL towns, such as New York and Pittsburgh, the CFL is

expanding into midsize markets that have little hope of ever snaring an NFL team. Sacramento and Las Vegas fit that description. So does frustrated Baltimore, where Mayor Kurt Schmoke has pledged to give the CFL a lease on the vacant, 56,000-seat Memorial Stadium if a long-shot drive to attract an existing NFL club doesn't score by Feb. 15. "Baltimore is poised to welcome the CFL with open arms," says the mayor's spokesman. In fact, some 20,000 Baltimoreans have already reserved CFL season tickets.

The bold expansion plans are attracting plenty of interest from wannabe owners. Why? A CFL franchise costs \$3 million, compared with "an average of \$125 million to \$140 million for an NFL club," says Megna. And should the CFL catch fire, "a few years down the road these franchises will be worth 10 times what they are today," predicts Fred Anderson, owner of the Gold Miners.

Still, relatively deep pockets may be needed. "I took a bath in my first year," admits Anderson, who has lost several million dollars so far. He's not alone. Of the CFL's 9 teams, 7 lost money in 1993. **CLOSED POSSE.** To stem the bleeding, the league has imposed a total player salary cap of just \$2 million per team. While clubs are allowed an exemption to pay one star up to \$750,000, most players make about \$50,000 a year, less than

10% of what the average NFL player gets. Yet despite the low pay, football players are banging on the CFL's door like it's a practice dummy. The Las Vegas Posse has already stopped taking names and numbers of gridiron hopefuls.

Keeping salaries down gives the expansion drive a chance to succeed with just a modest increase in revenues. CFL officials expect that the coming cross-border rivalry will rekindle fan interest in Canada. Meanwhile, the CFL has just signed a new U.S. cable-TV contract with ESPN Inc., which plans to broadcast a Friday night CFL game-of-the-week on its new ESPN-2 network.

Nobody's predicting overnight success. "It will take three to five years," for the CFL to prove itself in the U.S. market, says Larry Ryckman, president of the Calgary Stampeders and head of the league's expansion committee. But who knows? The beer-ad-bloated, drawn-out, thrill-anemic trench warfare of the "Not-so-Fun-League" could lead a slew of fans to sample the scrappier Canadian game. At worst, the CFL might make the hulking NFL get off its butt pads.

By William C. Symonds in Toronto

THE BEST MUTUAL FUNDS

AND HOW TO PICK THE ONES THAT ARE BEST FOR YOU

What else can you call it but mutual-fund mania? Investors pumped \$128.2 billion into equity mutual funds last year. That's about 10% more than they invested in 1991 and 1992 combined, each of which were record years, too. In December, cash pouring into the funds hit a new high of \$14.5 billion, and when the January figures are reported, that record is likely to fall again.

So far, fund buyers have been rewarded handsomely. In 1993, diversified U.S. funds racked up an average 13.8% total return (appreciation plus reinvestment of dividends and capital gains)—soundly beating the Standard & Poor's 500-stock index by nearly four percent age points. And with the Dow Jones industrial average pushing 4000, 1994 is off to a rousing start as well.

ON A TEAR. With the huge drop in long-term interest rates, the conservative funds that hold some fixed-income securities also beat the S&P 500. Even precious-metals funds, perennial laggards, went on a tear in 1993, up 97%. The average one-year return for all 760 equity funds in the 1994 BUSINESS WEEK Mutual Fund Scoreboard was a juicy 20%—boosted by fat profits from funds investing overseas.

Indeed, U.S. mutual-fund investors are going crazy for foreign investing as



John Wallace

HIS OPPENHEIMER MAIN ST. GROWTH & INCOME FUND IS A BIG HIT: ASSETS QUADRUPLED LAST YEAR, TO \$164.4 MILLION

well. During 1993, the assets of equity funds investing abroad swelled 146%, to \$113 billion, according to the Investment Company Institute. Especially hot are the "emerging markets" funds, which invest



Louis Benzak

HE RUNS THE SBIF FUND AND SAYS HE'S A CAUTIOUS SOB HUNKERED DOWN FOR A MARKET CORRECTION

in the developing economies of Asia, Latin America, Europe, and Africa. The Fidelity Emerging Markets Fund soared 81.8%, making it the best-performing foreign fund of the year. U.S. fund investors have been getting an extra dose of foreign investing without even knowing it. Nearly 9% of the holdings of domestic funds are non-U.S. stocks, according to Morningstar Inc., which compiles the data for the Scoreboard.

While fund managers

Eric Ryback

LINDNER DIVIDEND FUND IS OPEN TO NEW INVESTORS AGAIN, AFTER TURNING THEM AWAY FOR SEVEN MONTHS

s are awash in cash beyond their wild dreams, there's also an unsettling idercurrent. How much better can ings get? Investors have gale-force nds at their backs: low interest rates, x inflation, and improving economies th in the U.S. and abroad. No one n rely on such favorable investment eather all the time.

That's why investors need the Scoreard. It's a guide that can help identify at funds are delivering the most reard for the least risk. As always, it es you the lowdown on mutual-fund orformance, fees, and expenses, as well what's going on inside the portfolios. addition, you get the BUSINESS WEEK ings, which rank funds based on their e-year, risk-adjusted total returns. But that's not all. This year, the reboard is introducing several new tures that will help you view funds in ifferent light:

Aftertax returns. Federal tax rates nt up last year, and everyone is more -conscious than ever. Funds don't pay es. Instead, they must distribute their idends and realized capital gains to shareholders, who, in turn, pay the es on those profits. So it's vital to ow what the total returns are after es as well as before taxes.

Many funds look a lot different after isting for the Internal Revenue Ser-. For instance, CGM Capital Develop-it Fund has a five-year average anl return of 29.2% that falls to 24.5% r taxes. That's enough of a tax bite oush the fund down from No. 2 to 12 in five-year total returns. Twenti-Century Ultra Investors, on the oth-and, manages to run up big gains out making big taxable distributions s shareholders. Its five-year average ual returns are 28.1% pretax and aftertax. Taking taxes into account, fund jumps from No. 7 to No. 2.

f course, not every fund shareholder the same tax bracket. Our tax cal-tions assume an investor is in the est federal tax bracket through 1990 in the 31% bracket since 1991. In tion, all capital gains are assumed to ong-term—and since 1991, at least, ect to a maximum tax of 28%. If are in a lower tax bracket, the tax return will be understated. If fund is in your Individual Retire-nt Account or 401(k) plan, there are urrent tax consequences at all. In-ors who pay the highest tax rates eed to rethink their investment egy, dumping funds that pay divi-ls for those that shoot for capital

taxed gains. Suppose a fund buys ck at \$10 a share and it's now worth But the fund manager thinks it has further to go and holds on to the

stock. The fund has an unrealized capital gain, and no taxes are due. One day, the fund manager might start taking profits, and that could result in taxable distributions to shareholders. Right now, unless the fund shareholder is a whiz at deciphering financial statements, there's really no way to know how much untaxed profits are locked up in the fund.

But you can find this information in the column titled Untaxed Gains. This

estimates both the unrealized gains and gains that have already been taken but not yet distributed to shareholders. Funds usually distribute capital gains once a year. The number is shown as a percentage of the total assets of the portfolio. The \$31.7 billion Fidelity Magellan Fund, for example, has untaxed gains amounting to 20% of the portfolio.

For some funds, the untaxed gains are negative. They have tax-loss carry-

The Top Performers

BUSINESS WEEK's Mutual Fund Score-board has awarded three upward-pointing arrows, the highest rating for risk-adjusted performance over the past five years, to these 43 funds

Fund	Average annual total return*	Investment objective	Risk
BERGER 100	28.3%	Growth	High
CAPITAL INCOME BUILDER	14.7	Equity-income	Very low
CGM CAPITAL DEVELOPMENT	29.2	Growth	High
CONNECTICUT MUTUAL TOTAL RETURN	14.8	Asset allocation	Very low
FIDELITY ADVISOR (INCOME & GROWTH)	16.3	Balanced	Very low
FIDELITY ASSET MANAGER	15.9	Asset allocation	Very low
FIDELITY BALANCED	14.2	Balanced	Very low
FIDELITY BLUE CHIP GROWTH	23.6	Growth	Average
FIDELITY CONTRAFUND	26.5	Growth	Low
FIDELITY SELECT BIOTECHNOLOGY	30.2	Health care	High
FIDELITY SELECT FOOD & AGRICULTURE	18.6	Specialty	Low
FIDELITY SELECT UTILITIES	16.0	Utilities	Very low
FIDELITY UTILITIES INCOME	14.8	Utilities	Very low
FORTRESS UTILITY	15.0	Utilities	Very low
FRANKLIN INCOME	15.2	Income	Very low
GATEWAY INDEX PLUS	11.9	Growth/income	Very low
HANCOCK FREEDOM REGIONAL BANK B	22.1	Financial	Average
IDS UTILITIES INCOME	15.1	Utilities	Very low
INCOME FUND OF AMERICA	13.5	Income	Very low
INVESTCO INDUSTRIAL INCOME	18.1	Equity-income	Low
INVESTCO STRATEGIC FINANCIAL SERVICES	27.1	Financial	Average
INVESTCO STRATEGIC LEISURE	25.8	Specialty	Average
JANUS	19.7	Growth	Average
JANUS VENTURE	19.1	Small company	Low
LIBERTY UTILITY A	14.8	Utilities	Very low
LINDNER DIVIDEND A	13.1	Income	Very low
OPPENHEIMER MAIN ST. INCOME & GROWTH A	28.2	Growth/income	Average
PHOENIX BALANCED	13.9	Balanced	Very low
PHOENIX INCOME & GROWTH A	14.9	Balanced	Very low
PHOENIX TOTAL RETURN	14.2	Asset allocation	Very low
T. ROWE PRICE BALANCED	13.9	Balanced	Very low
PUTNAM CORPORATE ASSET	10.7	Income	Very low
SKSF	14.8	Growth/income	Low
SKYLINE SPECIAL EQUITIES	23.7	Small company	Average
SMITH BARNEY SHEARSON UTILITIES B	12.6	Utilities	Very low
SOGEN INTERNATIONAL	13.3	Asset allocation	Very low
STAGECOACH ASSET ALLOCATION	12.6	Asset allocation	Very low
THOMSON OPPORTUNITY B	28.9	Maximum growth	High
USAA MUTUAL INCOME	12.2	Income	Very low
VANGUARD PREFERRED STOCK	13.4	Income	Very low
VANGUARD/WELLESLEY INCOME	13.7	Income	Very low
VISTA CAPITAL GROWTH A	25.8	Growth	Average
VISTA GROWTH & INCOME A	26.6	Growth/income	Low

*1989-93 pretax returns, includes appreciation plus reinvestment of dividends and capital gains

DATA: MORNINGSTAR INC

forwards that the portfolio managers can use to shelter future gains.

■ **Style.** A mutual-fund prospectus may indicate that the fund has an investment objective, such as growth of capital, or the name of a fund may suggest a certain way of investing. But prospectuses and names can be misleading. Take the Dean Witter American Value Fund. Its name would imply that it buys out-of-favor stocks with low price-earnings ratios and solid assets. Far from

The other key element is the companies' potential for growth. And that potential is measured by what the stock market is willing to pay for earnings and assets. The more it pays, the higher the p-e ratio and the price-to-book value ratio. Funds whose stocks have p-e's and p-b's higher than average are deemed growth funds. Those below average, we call "value" funds. If the p-e and p-b are stuck around the middle, they're "blend" funds. So we have three

since small-cap growth stocks among the riskiest.

To be a successful mutual-fund investor, you don't have to take big risks. BUSINESS WEEK's risk-adjusted ratings help find the best funds for you. Star with the 43 funds awarded three upward-pointing arrows, the highest rating for risk-adjusted five-year total return (table, page 73). It's a varied mix of high-risk but high-return funds, such as Berger 100 and Thomson Opportunistic B, and low-risk but still strong-return funds, such as Fidelity Asset Manager and Franklin Income. Many of the more conservative funds on the list, especially those with low and very low risk ratings, make good all-weather investments, says Don Phillips of Morningstar. "They may not be the first-choice funds for everyone, but they're not the worst funds for anyone."

TURNAROUND PLAY. Among returnees the top honors list is Fidelity Contingent fund, with a snappy 26.5% average annual return and a low-risk profile. Portfolio manager Will Danoff has it set for an economic upturn, emphasizing cyclical stocks with improving earnings. One holding is a turnaround play—IBM.

Another familiar top-rated fund is Lindner Dividend Fund, which shut its doors to new investors for seven months last year because it couldn't find places to put the money. (Five three-arrow funds are closed to new investors.) Portfolio Manager Eric E. Ryback says that with the economy on the upswing, he's finding good investments in cyclical companies such as the convertible preferred stocks of USAir and Unisys. A combination of junk bonds and high-yield stocks allows Ryback to pay a 6.5% income distribution. "We try to at least match the yield on a long-term Treasury bond," says Ryback. "But unlike a Treasury bond, we have the potential for growth."

The three up arrows are also pointing to some new stars, such as the Oppenheimer Main St. Income & Growth Fund. The fund has been around for years, but it was run as a private-label fund sold by West Coast banks. Recognizing its stellar record—a hefty 28.2% average annual return—Oppenheimer recently rolled it out nationwide, and it has been an enormous hit. Assets more than quadrupled last year, to \$164.4 million.

The fund has a growth/income objective, but unlike many in that category portfolio manager John L. Wallace invests mainly in small-to-midsize companies "where I think I can double the money in two to three years." That provides the growth. Convertible securities and utility stocks provide the income.

Another new name is the SBSF Fu-

After years in the doghouse, precious-metals funds glittered in 1993. But overseas funds stole the show. Back in the U.S., all but the ailing health-care portfolios posted plump results

The Fund Groups

Fund objective	Total return*				Best-performing fund in 1993
	1993 (%)	1991-93† (%)	1989-93† (%)	1984-93† (%)	
PRECIOUS METALS	97.0	13.9	7.7	3.6	Lexington Strategic Investments
PACIFIC	58.0	18.9	6.5	16.1	Dean Witter Pacific Growth
FOREIGN	45.3	16.2	11.3	15.0	Fidelity Emerging Markets
WORLD	32.9	16.4	11.2	13.9	Prudential Global Genesis B
EUROPE	30.0	10.1	9.5	NA	Dean Witter European Growth
SPECIALTY	28.3	26.3	19.3	NA	Evergreen Global Real Estate Equity
TECHNOLOGY	25.3	28.7	20.0	12.2	Fidelity Select Industrial Equipment
FINANCIAL	19.1	37.2	21.3	15.2	Fidelity Select Brokerage & Inv. Mgt.
MAXIMUM GROWTH	18.0	25.3	18.5	11.8	American Heritage
NATURAL RESOURCES	18.0	8.6	10.1	9.4	Vanguard Specialized Energy
UTILITIES	16.9	15.4	14.8	15.1	G.T. Global Telecommunications A
SMALL COMPANY	16.8	26.3	17.7	12.5	PBHG Growth
ASSET ALLOCATION	15.3	14.8	12.0	10.3	Fidelity Asset Manager: Growth
EQUITY-INCOME	13.4	16.9	12.4	12.8	IDS Diversified Equity-Income
INCOME	13.1	16.0	12.7	12.9	Franklin Income
GROWTH	12.9	19.3	15.5	13.4	Gabelli Value
GROWTH/INCOME	12.6	16.8	13.8	13.3	Oppenheimer Main St. Income & Growth A
BALANCED	12.0	15.3	12.8	13.0	CGM Mutual
HEALTH CARE	1.7	16.0	22.5	17.1	Vanguard Specialized Health Care
U.S. DIVERSIFIED FUNDS	13.8	20.1	15.5	13.1	
ALL EQUITY FUNDS	20.0	19.0	14.6	12.9	
S&P 500	10.1	15.6	14.5	14.9	

* Pretax return, includes appreciation plus reinvestment of dividends and capital gain
DATA: MORNINGSTAR INC.

NA=Not available

† Average annual

it. Pricey growth stocks dominate its portfolio.

As mutual-fund investors become more sophisticated, they need to get a precise reading of just how their funds are investing. With that in mind, the Scoreboard contains nine classifications of investment "style." One element of style is the size of the companies the fund owns, measured by market capitalization. We break this into three groups. Large is \$5 billion or more, small is \$1 billion or less, and medium is greater than \$1 billion but less than \$5 billion.

groups for potential: growth, value, and blend.

The Scoreboard sorts funds by the size of the companies they invest in and those companies' potential. This makes for nine categories of style, as the table on page 75 shows. In 1993, on average, large-cap value funds gained 17.5%, helped by a boom in the big economically sensitive cyclical stocks. That's a neat return. But small-cap growth funds, aided by a sizzling market for initial public offerings, zoomed 26.6%. That's not surprising,

by Louis R. Benzak, "B" in the fund's ne. Benzak describes himself as a cautious t, who's hunkering n for a stock market rection: 25% in cash. also buys stocks he ks can weather a back. One favorite is -Board-listed Hors- a, a Canadian compa- that owns Clark Oil Refining, 20% of gold ducer American Bar- Resources, and a man real estate de- per. "It sells at 14%, it's worth over \$20 a e," says Benzak. "If market sold off, we'd more."

PLA. Note the five t-allocation funds on star list. The man- s of these funds are only stock-pickers must also rebalance portfolio among ks, bonds, and cash optimize gain and mize risks. Peter M. s of the Connecticut ual Total Return d says his fund is l "for people who v they should invest ocks but can't stom- the risk." Over the five years, the fund slightly beaten the 500 while subjecting investors to 60% of the index's volatility. or all the hoopla about global in- ing, none of those funds earned top gs. That's because despite their k 'em down showings in 1993, the d, foreign, Europe, and Pacific funds coming off several years of poor

The Largest Funds

Fund	Assets Billions	BW rating	Average annual total return*
FIDELITY MAGELLAN	\$31.7	▲▲	19.3%
INVESTMENT COMPANY OF AMERICA	19.0	▲	14.5
WASHINGTON MUTUAL INVESTORS	12.6	AVG	13.5
VANGUARD/WINDSOR	10.6	▼	11.7
INCOME FUND OF AMERICA	10.3	▲▲▲	13.5
JANUS	9.2	▲▲▲	19.7
FIDELITY ASSET MANAGER	9.1	▲▲▲	15.9
FIDELITY PURITAN	9.0	▲▲	14.3
VANGUARD INDEX 500	8.3	▲	14.3
TWENTIETH CENTURY ULTRA INVESTORS	8.4	▲	28.1
VANGUARD/WELLINGTON	8.1	▲	12.4
FIDELITY GROWTH & INCOME	7.7	▲▲	18.0
VANGUARD/WINDSOR II	7.6	AVG	13.5
FIDELITY EQUITY-INCOME	6.6	AVG	12.9
DEAN WITTER DIVIDEND GROWTH	6.5	▲	14.0
FIDELITY CONTRAFUND	6.2	▲▲▲	26.5
VANGUARD/WELLESLEY INCOME	6.0	▲▲▲	13.7
EUROPACIFIC GROWTH	5.8	▲	15.3
PUTNAM FUND FOR GROWTH & INC. A	5.3	▲	13.5
AMERICAN MUTUAL	5.2	▲	13.1

*1989-93 pretax returns, includes appreciation plus reinvestment of dividends and capital gains

LEGEND: (3 arrows up) Superior, (2 arrows up) Very good, (1 arrow up) Above average, (1 arrow down) Below average, (2 arrows down) Poor, (3 arrows down) Very poor

DATA: MORNINGSTAR INC.

The big funds got that way because of their continuing strong performances. Five of the 20 largest funds earned superior Scoreboard ratings

Lipper Analytical Services Inc., which tracks mutual-fund performance, suggests that investors ease their way into international investing with the broadest-based funds before they make more concentrated bets on regional and single-country portfolios.

In any case, Lipper warns investors that the high-flying overseas markets are ripe for a fall. There's more. As the U.S. economy strengthens, so may the dollar—and that could erode the value of foreign holdings for U.S. investors. Says Lipper: "You should buy these funds only if you're a long-term investor and you are willing to add to your holdings when prices drop."

To start your fund search, you need to know how to use the Scoreboard. First look for the Berger 100 Fund, near the top of page 80. Berger 100 is one of the top-rated funds. Notice that head-and-shoulders figure next to the fund's name. That tells you a portfolio manager has been on the job at least

10 years. That's no guarantee that a fund will win top honors, but eight of the highest-rated funds have managers with at least 10 years' tenure. Elsewhere on the page, you'll find outlines of the head-and-shoulders figures. That indicates there has been a change of managers in the last year. Fidelity Blue Chip Growth Fund, on page 84, is a fund with three up arrows that has had a change of management in the past year. That's neither good nor bad, but it tells you that most of the fund's record was built by someone else.

Moving to the right, the next column is Objective. Berger 100's objective—like 209 other funds in the Scoreboard—is "growth." True, all mutual funds are trying to make your money grow, but "growth" as a fund objective has generally come to mean U.S. diversified funds that choose stocks because of what the portfolio managers think is their potential to go up in price, not for their ability to generate dividends or preserve capital. All the funds are in 1 of 19 objectives. Under Size, the next heading to the right, is the fund's size by assets

What's Your Fund Style?

What investment "style" does your fund follow? For the first time, the Mutual Fund Scoreboard shows you. We analyze a fund's portfolio according to median market value of the companies it owns: large is \$5 billion or more, small is \$1 billion or less, medium is between \$1 billion and \$5 billion.

To determine whether the portfolio is growth- or value-oriented, the Scoreboard calculates the average P/E-ratios and price-book ratios of the stocks in the fund and compares that to the Standard & Poor's 500-stock index. Funds with lower averages are value funds; those at the high end are growth. Those in the middle we call "blend." Combining portfolio objective and orientation yields nine possible styles.

MEDIAN MARKET CAPITALIZATION	INVESTMENT STYLE		
	VALUE	BLEND	GROWTH
	LARGE-CAP VALUE	LARGE-CAP BLEND	LARGE-CAP GROWTH
	17.5%*	13.3%	12.1%
MEDIUM	MID-CAP VALUE	MID-CAP BLEND	MID-CAP GROWTH
	18.3%*	20.0%	29.5%
SMALL	SMALL-CAP VALUE	SMALL-CAP BLEND	SMALL-CAP GROWTH
	17.0%*	21.2%	26.6%

FUND AVERAGES ARE BASED ON 1993 PRETAX RETURNS

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Cover Story

under management in millions of dollars. In Berger 100's case, it's \$1,648.7 million, or \$1.6 billion. As you can see in the next column, the assets of the fund are up 117%—more than double—during the past year.

Next come the various fund fees. In Berger 100's case, the Sales Charge column says No Load—which is fundspeak for no sales charge. But the Expense Ratio—what shareholders pay out of the fund for management, administration, and other expenses—is 1.69%—about one-third higher than the 1.28% equity-fund average. One reason for the higher expenses is the dagger next to the ratio—a footnote that indicates a 12(b)-1 plan. Funds with such plans can dip into shareholder assets to pay for advertising and other promotional costs.

But investors don't mind a fund with a little higher expenses if the management delivers the goods. Look at 1993's returns. The first thing you see is that pretax and aftertax returns are both 21.2%. That's because Berger 100 made no taxable distributions last year. Funds have to make distributions only to pass along dividends, interest, and realized capital gains. Like many growth funds, Berger 100 doesn't give a hoot for dividend-paying stocks or interest-bearing bonds, so there's no Yield, as you can see in the next column. In addition, the fund makes a capital-gains distribution only if it realizes profits in excess of its losses, and that didn't happen in 1993. Go to Rank Within Objective to see how the pretax return of the Berger 100 stacked up to its peers in 1993. The fund was 28th out of 210 growth funds.

BIG JUMP. More important than 1993 returns is the long-term performance. That follows on the next page. There are 3-, 5-, and 10-year average annual returns, both pretax and aftertax. All of Berger's returns are excellent, but you notice the most recent is exceptional. That's largely because of an 89% gain in 1991. That knockout performance catapulted Berger out of obscurity and into the big time. Notice, too, that the longer the time period measured, the greater the gap between pretax and aftertax rates of returns. That's an indication the fund has made taxable distributions in the past, and you should not necessarily assume that because Berger 100 made no taxable distribution last year, it doesn't make them at all.

The little boxes that follow provide some insight into those returns. Each box is a 2½-year period. Note that in the first two boxes, the 1984-88 period, only one-quarter of each box is filled. That means during that period, Berger's returns put it only in the bottom

25%, or quartile, of all funds. The third and fourth boxes are completely filled, of course, indicating top-quartile performance. That indicates though the 10-year average annual return is high, it's largely because of superior results in the past five years.

Just how does Berger 100 invest? Look at the Portfolio Data. The fund has average turnover, the rate at which the manager trades stocks. It also has 19% cash, high for a growth fund. This could mean the portfolio manager is nervous about a market pullback and has turned defensive. More likely, though, the high cash level means the money from investors is coming in faster than the management can deploy it.

The next column, P-E Ratio, is the weighted average of all the p-e ratios of all the stocks in the fund. At 34, it's high, about 50% higher than the S&P

**A fund's name and
prospectus may suggest a
certain way of investing. But
they can be misleading**

500. The p-e is also one factor in determining the portfolio's "style," which in this case is MG. That stands for medium-capitalization growth stocks.

Untaxed Gains is next, and that's also a new feature in the Scoreboard. Berger 100's untaxed gains, unrealized capital gains, and capital gains realized but not distributed, amount to 20% of the fund. If you bought the fund today, and it sold all its holdings tomorrow, you would have to pay taxes on one-fifth of the proceeds. The final portfolio item is Largest Holding, which according to the last fund reports, is Oxford Health Plans. Oxford makes up about 2% of the fund. Finally, comes the Risk rating. It's "high," but you might have figured that by now. The high p-e ratio and the "mid-cap-growth" style were tipoffs. But before you shy away from the risks, remember the fund's three up arrow rating is based on risk-adjusted returns.

Indeed, all investing entails some degree of risk. There's nothing wrong with taking risks, as long as you are rewarded for it. The BUSINESS WEEK Mutual Fund Scoreboard shows you how to get the best returns for the amount of risk you're willing to take.

By Jeffrey M. Laderman in New York

Next week: BUSINESS WEEK'S annual Bond Fund Scoreboard

MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			
			ASSETS \$ MIL	% CHG 1992/93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	RANK OF 100
AARP CAPITAL GROWTH		Growth	682.5	39	No load	1.05	16.0	13.4	0.1	2
AARP GROWTH & INCOME	▲ ▲	Growth/income	1752.1	99	No load	0.84	15.7	14.6	2.5	3
ABT UTILITY INCOME	▲	Utilities	140.9	-1	4.75	1.17†	8.9	5.9	4.7	
ACORN	▲ ▲	Small company	2042.6	41	2.00*†	0.68	32.3	30.6	0.4	
ACORN INTERNATIONAL		Foreign	901.4	2950	2.00*	1.40	49.1	49.1	0.0	
ADVANTAGE GROWTH	AVG	Growth	80.7	42	4.00**	2.06†	10.4	9.1	0.3	12
ADVANTAGE INCOME	▲ ▲	Income	80.8	42	4.00**	1.84†	14.1	12.1	3.7	
ADVISORS A		Maximum growth	126.4	-12	5.00	4.39†	4.7	4.7	0.0	
AFFILIATED	AVG	Growth/income	4156.6	9	5.75	0.60†	12.8	10.3	2.6	5
AIM AGGRESSIVE GROWTH	AVG	Maximum growth	273.5	615	5.50	1.00†	32.0	32.0	0.0	
AIM CHARTER	▲ ▲	Growth/income	1652.3	22	5.50	1.17†	8.9	8.0	1.3	6
AIM CONSTELLATION	AVG	Maximum growth	2924.8	125	5.50	1.20†	17.3	17.3	0.0	
AIM GROWTH A		Growth	146.7	-13	5.50	1.17†	3.6	0.5	0.0	18
AIM INTERNATIONAL EQUITY		Foreign	479.8	287	5.50	1.80†	45.8	45.7	0.1	
AIM SUMMIT	AVG	Growth	712.0	18	8.50	0.73	8.3	6.1	0.9	1
AIM UTILITIES A	▲	Utilities	199.2	78	5.50	1.13†	12.3	10.4	4.2	
AIM VALUE A	▲ ▲	Growth	763.4	219	5.50	1.12†	18.7	17.5	0.2	
AIM WEINGARTEN	AVG	Growth	4712.4	-16	5.50	1.10†	1.5	0.8	0.6	21
ALGER SMALL CAPITALIZATION	▲	Small company	287.6	25	5.00**	2.10†	12.8	9.5	0.0	
ALLIANCE A		Growth	831.7	5	4.25	0.91†	14.3	11.0	0.2	
ALLIANCE BALANCED SHARES A		Balanced	171.9	19	4.25	1.35†	9.9	8.4	2.8	
ALLIANCE GROWTH & INCOME A	AVG	Growth/income	445.8	4	4.25	1.03†	10.0	7.0	2.3	
ALLIANCE GROWTH B (a)	▲ ▲	Growth	169.4	264	4.00**	2.15†	28.2	24.6	0.0	
ALLIANCE INTERNATIONAL A		Foreign	181.2	21	4.25	1.88†	27.5	26.4	0.0	
ALLIANCE MULTI-MARKET INC. & GR.		Income	97.5	NM	2.00**	2.32*	8.4	7.0	3.4	
ALLIANCE NEW EUROPE A		Europe	91.6	13	4.25	2.33*	34.6	34.6	0.0	
ALLIANCE PREMIER GROWTH B		Growth	156.3	309	4.00**	2.68†	9.4	9.4	0.0	
ALLIANCE QUASAR A		Maximum growth	196.6	-27	4.25	1.65†	16.2	15.1	0.0	
ALLIANCE TECHNOLOGY A		Technology	174.7	1	4.25	1.67†	21.6	13.5	0.0	
AMCAP		Growth	3078.6	5	5.75	0.75*	11.0	6.8	0.8	1
AMCORE VINTAGE EQUITY		Growth	119.1	NM	4.25	0.23†	5.5	4.8	1.9	
AMERICA'S UTILITY		Utilities	130.2	NM	No load	1.21	13.3	11.5	3.8	
AMERICAN BALANCED	▲ ▲	Balanced	1709.5	60	5.75	0.74†	11.3	8.6	4.6	
AMERICAN CAPITAL COMSTOCK A	AVG	Growth/income	980.9	2	5.75	0.87†	9.1	5.0	1.6	
AMERICAN CAPITAL EMERGING GROWTH A	AVG	Small company	582.5	49	5.75	1.10†	23.9	21.8	0.0	
AMERICAN CAPITAL ENTERPRISE A	AVG	Growth	787.1	7	5.75	0.99†	11.0	7.0	0.4	1
AMERICAN CAPITAL EQUITY-INCOME A	▲	Equity-income	187.1	51	5.75	1.01†	16.0	13.7	2.9	
AMERICAN CAPITAL GROWTH & INCOME A		Growth/income	212.8	18	5.75	1.15†	16.3	12.2	1.9	
AMERICAN CAPITAL PACE A		Growth	2441.5	0	5.75	1.06†	10.8	6.5	1.0	1
AMERICAN GAS INDEX		Natural resources	230.3	41	No load	0.84	16.6	15.2	3.3	

* Funds with no sales charge will have a sales charge of 0%. † Funds with no expense ratio will have an expense ratio of 0%. NM: Not meaningful. N/A: Not available. M/N: Not meaningful.

HOW TO USE THE TABLES

BUSINESS WEEK RATING Based on five-year risk-adjusted performance, relative to the S&P 500. Calculated by subtracting a fund's risk-of-loss factor (see RISK) from historical pretax total return. To get a positive rating, fund must beat the S&P 500 on a risk-adjusted basis. The ratings are as follows:

- ▲ ▲ ▲ Superior
- ▲ ▲ Very good
- ▲ Above-average
- AVG Average
- Below-average
- Poor
- Very poor

MANAGEMENT CHANGES indicates the fund's manager has held the job at least 10 years; indicates a new manager since Dec. 31, 1992.

S&P 500 COMPARISON The pretax total returns for the S&P 500 are as follows: 1993, 10.1%; three-year average (1991-93), 15.6%; five-year average (1989-93), 14.5%; 10-year average (1984-93), 14.2%.

SALES CHARGE The cost of buying a fund, or the "load." Most load funds take the charge out of the initial investment, and for rating purposes, performance is reduced by these charges. Loads may be levied on withdrawals, either as a flat fee or one that declines over time.

EXPENSE RATIO Expenses for 1993 as a percentage of average net assets, a measure of how

much shareholders pay for management. Fo indicate if a ratio includes a 12(b)-1 plan, spends shareholder money for marketing of

OBJECTIVE Some funds specialize in one which is indicated in this column. Other fun grouped as follows: Asset allocation: Mixes bonds, and cash, and possibly gold, real estate, foreign securities. Balanced: Buys both stock bonds. Equity-income: Emphasizes high-yield Income: Maximizes current income with stock bonds. Growth: Strives for capital appreciation. Growth/income: Seeks appreciation with current income. Maximum growth: Takes great and may use options, margin, or short sale

PRETAX TOTAL RETURN A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA					RISK	TELEPHONE	
5 YEARS PRETAX	5 YEARS AFTERTAX	10 YEARS PRETAX	10 YEARS AFTERTAX			TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)		TOLL FREE (800)	IN-STATE
7.8	13.9	11.8				High	5	22	MG	12	High	253-2277	MA 617-330-5400
5.5	14.7	13.1				Low	9	21	MB	13	Low	253-2277	MA 617-330-5400
9.7	12.3	9.3	13.0	9.7		Average	8	16	LV	9	Low	553-7838	FL 407-655-7255
2.8	20.1	18.2	17.9	15.3		Low	4	29	MG	45	Average	922-6769	
not rated						Low	8	27	SG	15		922-6769	
6.3	14.2	12.3				Average	2	21	LB	18	Average	243-8115	MA 617-742-9858
2.6	12.1	10.2				Average	5	17	LV	12	Very low	243-8115	MA 617-742-9858
6.8						Very high	32	25	MG	47		451-2010	NY 212-720-9218
3.0	12.6	9.8	13.4	9.6		Average	0	22	LV	20	Low	874-3733	NY 212-848-1800
5.3	24.3	22.4				Very high	13	29	SG	16	Very high	347-1919	TX 713-626-1919
3.9	17.8	15.9	13.7	10.9		High	28	21	LV	10	Low	347-1919	TX 713-626-1919
1.8	24.9	23.4	17.7	14.6		Average	11	26	MG	24	High	347-1919	TX 713-626-1919
3.3	11.7	8.1	10.9	7.1		High	1	27	LG	16	High	347-1919	TX 713-626-1919
not rated							4	28	MG	19		347-1919	TX 713-626-1919
5.1	16.5	14.0	12.8	10.9		High	2	24	LB	16	Average	347-1919	TX 713-626-1919
1.5	14.6	11.8				High	2	15	MV	7	Low	347-1919	TX 713-626-1919
2.7	21.6	18.3				Very high	4	22	MB	12	Average	347-1919	TX 713-626-1919
3.3	16.1	15.2	15.2	13.1		High	7	23	LB	16	Average	347-1919	TX 713-626-1919
2.2	26.1	23.1				High	10	36	SG	16	High	992-3863	NY 201-547-8320
5.5	15.7	12.1	13.4	8.6		Average	2	19	LB	28	High	227-4618	NJ 201-319-4000
0	9.6	7.5	13.0	9.7		Very high	7	21	LB	8	Low	227-4618	NJ 201-319-4000
6	12.5	8.4	13.7	8.8		High	3	19	LB	12	Average	227-4618	NJ 201-319-4000
1.1	22.0	18.9				High	3	23	LG	15	Average	227-4618	NJ 201-319-4000
1.5	5.8	4.5	14.1	11.2		High	1	34	LV	13	High	227-4618	NJ 201-319-4000
not rated						High	18	18	LV	1		227-4618	NJ 201-319-4000
2						High	2	19	LV	-7		227-4618	NJ 201-319-4000
not rated							1	20	LG	8		227-4618	NJ 201-319-4000
2	9.5	8.3	11.1	9.2		High	4	24	SB	28	Very high	227-4618	NJ 201-319-4000
1	17.4	13.9	12.2	9.4		Average	7	33	MG	26	Very high	227-4618	NJ 201-319-4000
2	14.7	11.9	12.9	10.2		Very low	14	23	LG	30	Average	421-0180	CA 213-486-9200
not rated							1	22	LB	3		438-6375	
not rated						Very low	6	17	MV	6		487-3863	VA 804-649-1315
6	12.7	9.9	13.4	9.7		Low	9	22	LV	7	Very low	421-0180	CA 415-421-9360
4	14.1	11.3	11.4	8.3		Low	6	21	LB	24	Average	421-5666	TX 713-993-0500
4	23.5	21.8	13.1	11.0		Average	6	34	MG	32	High	421-5666	TX 713-993-0500
8	16.4	12.6	12.5	8.4		High	2	31	MG	12	Average	421-5666	TX 713-993-0500
9	13.5	11.5	11.4	7.7		Average	10	23	LB	12	Low	421-5666	TX 713-993-0500
7	12.7	10.3	11.2	7.7		Average	8	23	LB	16	Average	421-5666	TX 713-993-0500
5	13.0	9.6	11.0	7.9		High	16	27	LG	14	Average	421-5666	TX 713-993-0500
8						Low	0	16	MV	8		343-3355	MD 301-657-1500

DATA: MORNINGSTAR INC., CHICAGO, IL

X TOTAL RETURN Pretax return adjusted for taxes. Assumes ordinary income and capital gains at highest rate applicable in each year. Pretax return is assumed to be long-term.

come distributions as a percent of net asset value.

WITHIN OBJECTIVE 1993 performance relative to other funds with same objective.

fund's relative performance during the four periods from Jan. 1, 1984 to Dec. 31, 1993. d from left to right, and the level of green in- formance relative to all other funds in that for the top quartile; for the second quar- the third quartile; and for the bottom quar- py box indicates no data for that period.

TURNOVER Trading activity, the lesser of pur- chases or sales divided by average monthly assets.

% CASH Portion of fund assets not invested in stocks or bonds. A negative number means the fund has borrowed to buy securities.

PRICE-EARNING RATIO The average, weighted price-earnings ratio of stocks in a fund's portfolio, based on last 12 months' earnings.

STYLE Each fund has a two-letter designation de- scribing the characteristics of the fund's portfolio. L, M, or S, stands for large-, medium-, and small- capitalization stocks. V stands for value, an in- vestment style that emphasizes stocks with lower- than-average p-e's and price-to-book value ratios. G indicates growth stocks, which have higher p-e's and p-b's. B is a blend of the two.

UNTAXED GAINS Percentage of assets in portfolio that are unrealized and undistributed capital gains. A negative figure indicates losses that may offset fu- ture gains.

LARGEST HOLDING Comes from latest available fund reports.

RISK Potential for losing money in a fund, or risk- of-loss factor. For each fund, the three-month Treasury bill return is subtracted from the monthly total return for each of the 60 months in the ratings period. When a fund has not performed as well as Treasury bills, the monthly result is negative. The sum of these negative numbers is divided by the number of months. The result is a negative number, and the greater its magnitude, the higher the risk of loss. This number is the basis for BW ratings and the RISK column.

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)		
			ASSETS \$ MIL.	% CHG 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD
AMERICAN HERITAGE		Maximum growth	149.8	506	No load	2.10	41.4	39.6	4.3
AMERICAN LEADERS A		Growth/income	229.8	22	4.50	1.20	11.7	10.2	1.6
AMERICAN MUTUAL	▲	Growth/income	5194.3	10	5.75	0.59†	14.3	11.5	3.7
AMERICAN NATIONAL GROWTH		Growth	113.1	1	5.75	1.07	8.2	3.6	1.3
AMERICAN NATIONAL INCOME	▲	Equity-income	120.0	11	5.75	1.18	10.5	6.9	2.4
AMSOUTH BALANCED		Balanced	197.0	28	4.50	0.84	14.4	12.6	3.5
AMSOUTH EQUITY	AVG	Growth	167.1	49	4.50	0.95	18.4	16.9	1.8
BABSON ENTERPRISE	▲	Small company	197.3	7	No load‡	1.11	16.3	14.1	0.3
BABSON GROWTH		Growth	245.3	0	No load	0.86	10.3	8.6	1.4
BARTLETT BASIC VALUE		Growth/income	100.5	2	No load	1.21	11.7	10.9	1.4
BB&K INTERNATIONAL EQUITY		World	220.0	NM	No load	0.68	37.8	37.8	0.0
BENHAM EQUITY GROWTH		Growth	96.5	31	No load	0.75	11.4	9.2	1.8
BENHAM GOLD EQUITIES INDEX		Precious metals	618.9	283	No load	0.75	81.2	81.2	0.1
BENHAM INCOME & GROWTH		Growth/income	229.8	63	No load	0.75	11.3	10.0	2.8
BERGER 100	▲ ▲ ▲	Growth	1648.7	117	No load	1.69†	21.2	21.2	0.0
BERGER 101	▲ ▲	Growth/income	189.3	332	No load	2.10†	23.6	23.3	0.7
BERNSTEIN INTERNATIONAL VALUE		Foreign	705.1	599	No load	2.00	34.6	34.3	0.1
BLANCHARD GLOBAL GROWTH	AVG	Asset allocation	95.6	-3	No load	2.58†	24.5	20.7	0.0
BNY HAMILTON EQUITY-INCOME		Equity-income	112.8	452	No load	1.11	11.9	10.9	2.5
BOSTON CO. CAPITAL APPREC. RETAIL		Growth	349.6	-19	No load	1.16†	16.5	14.4	1.0
BOSTON CO. SPECIAL GROWTH RETAIL		Growth	83.8	31	No load	1.75†	20.0	17.0	0.0
BRANDYWINE	▲	Growth	1527.5	82	No load	1.10	22.6	19.0	0.0
BURNHAM A	▲	Growth/income	118.5	1	3.00	1.20†	9.4	6.6	3.9
CALVERT SOCIAL INVESTMENT EQUITY		Growth	86.9	17	4.75	1.13†	2.1	1.6	1.3
CALVERT SOCIAL INVESTMENT MANAGED	▲	Balanced	541.3	21	4.75	1.28†	6.0	4.7	3.1
CALVERT WORLD VALUES GLOBAL EQ		World	80.6	420	4.75	1.50†	22.5	22.4	0.4
CALVERT-ARIEL APPRECIATION		Growth	219.3	22	4.75	1.37†	8.0	7.4	0.2
CALVERT-ARIEL GROWTH		Small company	225.8	-11	4.75‡	1.16†	8.8	6.8	0.9
CAPITAL EXCHANGE	AVG	Growth/income	89.3	91	4.00	NA	5.7	5.2	1.4
CAPITAL INCOME BUILDER	▲ ▲ ▲	Equity-income	3040.2	109	5.75	0.72†	15.3	13.6	4.6
CAPITAL MARKET INDEX		Growth/income	158.7	NM	No load	0.34	9.7	8.8	2.6
CAPSTONE U. S. TREND		Growth	102.6	1	4.75	1.13†	6.1	3.8	1.3
CARDINAL	AVG	Growth/income	272.1	0	6.00	0.67	5.9	4.6	2.1
CENTURY SHARES	▲	Financial	233.8	-10	No load	0.84	-0.4	-2.1	1.8
CGM CAPITAL DEVELOPMENT	▲ ▲ ▲	Growth	523.8	33	No load‡	0.86	28.7	20.9	0.2
CGM MUTUAL	▲ ▲	Balanced	947.1	72	No load	0.93	21.8	18.7	2.8
CLIPPER	AVG	Growth	239.8	14	No load	1.13	11.3	7.2	1.3
COHEN & STEERS REALTY SHARES		Specialty	155.8	279	No load	1.13	18.8	15.5	4.5
COLONIAL A	AVG	Growth/income	530.6	21	5.75	1.12†	14.5	12.9	1.8
COLONIAL GROWTH SHARES A		Growth	169.6	7	5.75	1.16†	10.0	6.8	0.6
COLONIAL U. S. FUND FOR GROWTH B		Growth	132.8	193	5.00**	2.25†	13.2	12.4	0.3
COLONIAL UTILITIES B		Utilities	1005.3	1081	5.00**	1.98†	8.5	7.1	4.3
COLUMBIA BALANCED		Balanced	186.6	107	No load	0.70	13.6	11.5	3.1
COLUMBIA COMMON STOCK		Growth/income	100.7	97	No load	0.80	16.4	14.3	1.3
COLUMBIA GROWTH	▲	Growth	605.4	17	No load	0.82	13.0	9.5	0.6
COLUMBIA SPECIAL		Small company	772.7	64	No load	1.13	21.6	16.6	0.0
COMMON SENSE GROWTH		Growth	1962.3	24	8.50	1.14	9.4	7.0	0.7
COMMON SENSE GROWTH & INCOME	AVG	Growth/income	666.6	8	8.50	1.05	9.4	6.8	1.6
COMPASS CAPITAL EQUITY-INCOME		Equity-income	268.8	52	3.75	0.94	17.1	14.0	3.1
COMPASS CAPITAL GROWTH		Growth	151.1	1	3.75	0.92	1.6	0.5	1.0
COMPOSITE BOND & STOCK	▲	Balanced	189.9	68	4.50	1.13†	9.3	7.7	3.7
COMPOSITE GROWTH		Growth/income	96.4	10	4.50	1.17†	6.8	4.2	1.5
COMPOSITE NORTHWEST 50		Growth	166.8	-7	4.50	1.09†	2.4	1.2	0.5
CONNECTICUT MUTUAL TOTAL RETURN	▲ ▲ ▲	Asset allocation	171.2	56	5.00	1.06	15.9	12.8	3.1
COPLEY	▲ ▲	Growth/income	80.7	124	No load	1.47	10.2	10.2	0.0
CRABBE HUSON ASSET ALLOCATION		Asset allocation	92.0	66	No load	1.42†	18.2	15.9	1.6
DEAN WITTER AMERICAN VALUE	▲	Growth	1216.8	166	5.00**	1.61†	18.7	16.4	0.0
DEAN WITTER CAPITAL GROWTH		Growth	652.8	-40	5.00**	1.74†	-9.0	-11.6	0.0
DEAN WITTER DEVELOPING GROWTH		Small company	286.6	92	5.00**	1.84†	30.8	28.7	0.0
DEAN WITTER DIVIDEND GROWTH	▲	Growth/income	6549.6	30	5.00**	1.40†	14.2	13.4	2.2

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA						RISK	TELEPHONE	
RS	5 YEARS		10 YEARS		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)		TOLL FREE (800)	IN-STATE
PRETAX	PRETAX	AFTERTAX	PRETAX	AFTERTAX										
3.1	17.3	14.5	-1.1	-3.0		Very high	8	17	MB	10	Senetek (Special)(11)	High	828-5050	
5.6	12.4	9.7	13.6	10.3		Average	8	18	LV	9	Sears Roebuck(3)	Average	245-5051	PA 412-288-1900
1.8	13.1	10.4	13.6	10.5		Low	2	21	LV	23	GTE(2)	Low	421-0180	CA 213-486-9200
9.4	11.4	8.0	9.7	6.5		High	1	24	LG	11	Black & Decker(3)	Average	231-4639	TX 409-763-8772
0.9	13.7	10.8	11.5	8.2		Average	8	22	LB	14	Schering-Plough(3)	Low	231-4639	TX 409-763-8772
not rated						Very low	6	24	LB	10	British Petroleum (ADR)(2)		451-8379	OH 205-581-7530
4.1	13.0	11.5				Low	9	23	LV	13	Ford Motor(3)	Average	451-8379	OH 205-581-7530
4.4	16.4	13.9	13.9	11.6		Low	4	23	SV	21	Anthony Industries(2)	Average	422-2766	MO 816-471-5200
3.6	10.9	8.6	12.0	8.4		Very low	1	21	LV	38	LG & E Energy(2)	Average	422-2766	MO 816-471-5200
4.7	9.4	7.9	11.4	8.9		Average	7	21	MV	19	Martin Marietta(3)	Average	800-4612	OH 513-621-4612
7.1	2.8	2.3	13.7	9.3		High	1	31	MB	15	British Land(2)	Very high		CA 415-571-5800
not rated						High	2	16	MV	7	Abbott Laboratories(4)		472-3389	CA 415-965-4274
3.6	9.0	8.9				Average	3	51	MG	23	American Barrick Res.(21)	Very high	472-3389	CA 415-965-4274
7.4						Average	1	16	LV	10	Bell Atlantic(3)		472-3389	CA 415-965-4274
5.3	28.3	26.7	17.3	15.5		Average	19	34	MG	20	Oxford Health Plans(2)	High	333-1001	CO 303-329-0200
5.4	18.2	17.1	13.3	11.1		Average	20	22	LB	12	Motorola(2)	Average	333-1001	CO 303-329-0200
not rated						Very low	4	32	MV	11	Nomura Securities(3)			NY 212-756-4097
7.7	9.2	6.8				High	-1	28	MB	6	Placer Dome(2)	Low	922-7771	NY 212-779-7979
not rated							5	23	LB	5	Royal Dutch Petroleum(3)		426-9363	
1.9	10.0	6.8	13.1	9.4		Average	8	24	LV	13	General Motors(3)	Average	225-5267	
1.0	17.2	13.7	12.8	9.2		High	14	36	MG	10	Comcast Cl A(3)	High	225-5267	
5.6	23.1	20.6				High	9	31	MG	20	Lotus Development(3)	High	338-1579	DE 302-656-6200
2.2	10.9	7.9	13.2	9.9		Average	7	19	LV	16	Pacific Telesis Group(3)	Very low	874-3863	NY 212-262-3100
1.1	10.3	9.8				Average	4	21	MB	14	Toys 'R' Us(3)	Average	368-2748	MD 301-951-4820
1.9	10.1	8.4	11.7	9.7		Low	3	20	MB	3	May Department Stores(2)	Very low	368-2748	MD 301-951-4820
not rated						Low	14	28	MB	10	Development Bank Singapore(2)		368-2748	MD 301-951-4820
1.3						Average	1	21	SB	18	Rouse(4)		368-2748	MD 301-951-4820
1.2	11.1	9.7				Very low	1	21	SB	19	Clorox(5)	Average	368-2748	MD 301-951-4820
1.3	13.6	13.0	12.8	12.0			1	NA	NA	NA	NA	Average	225-6265	
1.0	14.7	12.9				Very low	6	17	LV	11	Telecom New Zealand(2)	Very low	421-0180	CA 213-486-9200
not rated							NA	NA	NA	NA	NA		328-7408	
1.8	12.8	10.0	10.9	8.0		Low	19	25	LG	23	General Electric(5)	Average	262-6631	TX 713-750-8000
1.6	12.0	10.0	13.4	10.9		Very low	9	18	LV	24	Royal Dutch Petroleum(4)	Low	848-7734	OH 614-464-6852
1.8	16.8	14.9	15.4	12.5		Very low	-3	13	MV	55	Torchmark(5)	Average	321-1928	MA 617-482-3060
1.1	29.2	24.5	21.9	16.7		High	0	22	SB	1	Chrysler(7)	High	345-4048	MA 617-859-7714
1.6	17.5	14.6	16.7	13.0		High	2	20	LV	16	Chrysler(6)	Low	345-4048	MA 617-859-7714
1.6	14.0	11.7				High	3	16	LV	11	Philip Morris(13)	Average	776-5033	CA 310-247-3940
not rated						Low	4	28	SB	3	Kimco Realty(7)		437-9912	NY 212-832-3232
1.9	12.6	10.6	13.9	11.1		Low	10	20	MV	25	Caesars World(1)	Low	248-2828	MA 617-426-3750
1.5	13.6	10.7	13.6	10.3		Average	3	18	MV	18	Primerica(3)	Average	248-2828	MA 617-426-3750
not rated							1	19	LB	8	Chevron(2)		248-2828	MA 617-426-3750
not rated						Very low	3	15	MV	-2	Texas Utilities(3)		248-2828	MA 617-426-3750
not rated						High	8	21	LB	5	AT&T(1)		547-1707	OR 503-222-3606
not rated						Average	0	23	LB	9	Tribune(3)		547-1707	OR 503-222-3606
7	16.2	12.7	13.6	10.0		High	4	25	MB	11	Circus Circus Enterprises(3)	Average	547-1707	OR 503-222-3606
8	19.2	17.0				Very high	8	29	SG	11	Fred Meyer(2)	High	547-1707	OR 503-222-3606
8	14.9	12.7				Very high	2	28	LG	14	General Motors(3)	Average	544-5445	
7	13.7	12.2				Average	1	21	LB	21	General Electric(2)	Average	544-5445	
8						Average	3	26	LB	9	Universal(4)		451-8371	
3						High	1	24	LB	5	Ace(3)		451-8371	
4	10.4	8.4	10.4	7.4		Low	2	20	LV	8	Bristol-Myers Squibb(2)	Very low	543-8072	WA 509-353-3400
4	9.7	7.5	11.2	8.2		Average	2	19	LV	7	Hewlett-Packard(3)	Low	543-8072	WA 509-353-3400
5	15.8	15.3				Very low	0	22	MV	13	Albertson's(7)	High	543-8072	WA 509-353-3400
6	14.8	11.8				Very high	13	19	MV	9	Goodyear Tire & Rubber (1)	Very low	322-2642	CT 203-987-5090
9	12.0	12.0	13.4	13.4		Very low	19	15	MV	19	Allegheny Power System(4)	Very low	424-8570	DC 508-674-8459
1						High	11	23	MB	11	Mentor Graphics(1)		541-9732	OR 503-295-0919
6	19.1	17.0	14.2	11.9		Very high	4	36	MG	10	General Electric(2)	Average	869-3863	NY 212-392-2550
0						Low	1	21	MB	1	Tootsie Roll Industries(3)		869-3863	NY 212-392-2550
9	15.9	15.5	8.3	8.0		Very high	1	36	SG	11	DSC Communications(3)	Very high	869-3863	NY 212-392-2550
5	14.0	12.8	14.5	12.8		Very low	5	24	LB	26	Sprint(2)	Low	869-3863	NY 212-392-2550

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)		
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE-TAX	AFTER-TAX	YIELD
DEAN WITTER EQUITY-INCOME	AVG	Equity-income	167.7	13	5.00**	2.04†	-3.5	-5.1	1.4
DEAN WITTER EUROPEAN GROWTH		Europe	519.1	NM	5.00**	2.41†	38.3	37.5	0.0
DEAN WITTER MANAGED ASSETS	▲	Asset allocation	254.0	10	5.00**	1.75†	9.4	7.0	2.0
DEAN WITTER NATURAL RESOURCE	▲	Natural resources	131.5	17	5.00**	1.96†	17.5	15.1	0.7
DEAN WITTER PACIFIC GROWTH	▲	Pacific	1081.2	478	5.00**	2.56†	94.7	94.0	0.0
DEAN WITTER STRATEGIST	▲	Asset allocation	821.4	50	5.00**	1.62†	8.0	6.6	1.7
DEAN WITTER UTILITIES	▲ ▲	Utilities	3881.3	33	5.00**	1.46†	12.0	10.3	4.3
DEAN WITTER VALUE-ADDED MKT. EQTY.	▲	Growth/income	345.0	48	5.00**	1.71†	12.6	11.9	0.8
DEAN WITTER WORLDWIDE INVESTMENT	▲	World	356.8	61	5.00**	2.40†	40.8	39.4	0.0
DELAWARE	▲	Balanced	489.7	1	5.75	0.89†	9.4	6.6	3.1
DELAWARE DECATUR I	▲	Equity-income	1508.2	5	8.50	0.72	15.4	10.9	4.1
DELAWARE DELCAP	▲	Growth	1016.8	-13	5.75	1.30†	11.9	10.9	0.0
DELAWARE TREND	AVG	Maximum growth	277.6	64	5.75	1.33†	22.4	18.1	0.0
DELAWARE VALUE	▲	Growth	160.0	267	5.75	1.72†	18.8	18.5	0.2
DG EQUITY		Growth	289.0	105	2.00	0.98†	5.6	5.0	1.3
DIVERSIFICATION	▲	Growth/income	77.1	NM	4.00†	NA	6.6	6.2	1.1
DODGE & COX BALANCED	▲ ▲	Balanced	486.8	81	No load	0.61	16.0	14.0	3.5
DODGE & COX STOCK	AVG	Growth/income	435.9	30	No load	0.63	18.3	16.0	1.9
DREYFUS	AVG	Growth/income	2870.9	-9	No load	0.74	6.4	4.2	2.4
DREYFUS APPRECIATION	AVG	Growth	237.4	14	No load	1.14†	0.7	0.0	1.8
DREYFUS CAPITAL VALUE A (PREMIER)	▲	Asset allocation	432.5	-1	4.50	1.68	12.7	12.0	2.0
DREYFUS CAPITAL GROWTH (PREMIER)	▲	Growth	823.0	54	3.00	1.06	14.7	9.6	4.3
DREYFUS EDISON ELECTRIC INDEX	▲	Utilities	103.4	104	No load	0.75	10.5	8.4	4.8
DREYFUS GLOBAL INVESTING A (PREMIER)	▲	World	81.9	101	4.50	NA	23.9	22.5	0.5
DREYFUS GROWTH & INCOME	▲	Growth/income	1276.7	831	No load	1.24	18.6	17.7	2.1
DREYFUS GROWTH OPPORTUNITY	▲	Growth	495.1	-23	No load	0.54	2.0	-3.9	0.0
DREYFUS NEW LEADERS	▲	Small company	338.9	45	1.00*	1.21†	17.0	14.0	0.2
DREYFUS STRATEGIC INVESTING A	AVG	Growth	282.0	10	4.50	1.74	16.7	13.5	0.5
DREYFUS STRATEGIC WORLD INV.	▲ ▲	World	159.5	43	3.00	1.61†	21.7	21.7	0.0
DREYFUS THIRD CENTURY	AVG	Growth	523.0	-1	No load	1.11	5.3	3.1	0.5
EATON VANCE GREATER CHINA GROWTH	▲	Pacific	154.3	NM	4.75	2.00†	80.7	80.6	0.0
EATON VANCE GROWTH	▲	Growth	138.8	-10	4.75	0.89†	-2.5	-2.8	0.4
EATON VANCE SPECIAL EQUITIES	▲	Growth	79.9	4	4.75	1.05†	1.1	-0.9	0.0
EATON VANCE STOCK	AVG	Growth/income	97.5	7	4.75	0.95†	4.2	0.9	2.0
EBI EQUITY	AVG	Growth/income	87.6	-4	No load	1.12†	9.2	4.9	0.6
EBI FLEX	▲ ▲	Asset allocation	275.6	66	No load	1.12†	10.5	9.2	2.0
ECLIPSE FINANCIAL ASSET EQUITY	AVG	Small company	170.4	11	No load	1.12	17.0	12.6	0.5
EMERALD EQUITY	▲	Growth	143.8	-7	4.50	0.81†	4.3	2.9	1.1
ENTERPRISE CAPITAL APPRECIATION	▲	Maximum growth	103.2	42	4.75	1.75†	5.7	5.7	0.0
ENTERPRISE GROWTH	▲	Growth	90.9	8	4.75	1.60†	10.6	8.7	0.1
EQUITY STRATEGIES	▲	Maximum growth	81.7	16	No load†	1.12	18.2	18.2	0.0
EUROPACIFIC GROWTH	▲	Foreign	5803.0	121	5.75	1.10†	35.6	35.0	1.1
EV TRADITIONAL INVESTORS (b)	▲ ▲	Balanced	217.0	2	4.75	0.89†	11.2	7.7	4.0
EV TRADITIONAL TOTAL RETURN (c)	▲	Utilities	629.1	11	4.75	1.32†	9.6	5.9	4.7
EVERGREEN	▲	Small company	629.7	-19	No load	1.12	6.3	4.9	0.6
EVERGREEN FOUNDATION	▲	Balanced	239.8	276	No load	1.23	15.7	13.9	2.3
EVERGREEN GLOBAL REAL ESTATE EQUITY	▲	Specialty	142.5	1560	No load	2.19	51.4	50.9	0.0
EVERGREEN LIMITED MARKET	AVG	Small company	103.8	55	No load	1.24	9.6	7.9	0.0
EVERGREEN TOTAL RETURN	AVG	Equity-income	1195.4	11	No load	1.18	12.9	9.3	7.1
EVERGREEN VALUE TIMING	▲	Growth/income	78.0	22	No load	1.27	14.4	12.8	0.9
FAM VALUE	▲	Small company	220.0	424	No load†	1.50	0.2	0.0	0.5
FIDELITY	▲	Growth/income	1546.2	14	No load	0.66	18.4	13.7	2.0
FIDELITY ADVISOR EQUITY GROWTH (d)	▲	Growth	427.1	1004	4.75	1.96†	14.9	13.3	0.0
FIDELITY ADVISOR GROWTH OPPORTUNITIES	▲	Growth	2340.6	227	4.75	1.64†	22.2	21.0	0.3
FIDELITY ADVISOR INCOME & GROWTH	▲ ▲ ▲	Balanced	1961.4	312	4.75	1.51†	19.7	17.5	3.1
FIDELITY ADVISOR OVERSEAS	▲	Foreign	267.5	1265	4.75	2.38†	41.8	41.8	0.2
FIDELITY ADVISOR STRATEGIC OPPORT. (e)	▲ ▲	Growth	310.0	51	4.75	1.57†	20.4	17.2	1.9
FIDELITY ASSET MANAGER	▲ ▲ ▲	Asset allocation	9094.4	168	No load	1.09	23.3	21.0	3.7
FIDELITY ASSET MANAGER: GROWTH	▲	Asset allocation	1795.0	658	No load	1.19	26.3	24.9	0.6
FIDELITY ASSET MANAGER: INCOME	▲	Income	292.4	NM	No load	0.65	15.4	13.6	4.4

* Includes redemption fee. ** Includes deferred sales charge. † 1/2(b) 1 plan in effect. ‡ Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful.
 (b) Formerly Eaton Vance Investors. (c) Formerly Eaton Vance Total Return. (d) Formerly Fidelity Advisors Equity Port. Grth R. (e) Formerly Fidelity Spec. Sit. Fund Advisor Class.

FUND SCOREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA					RISK	TELEPHONE		
S TERTAX	5 YEARS PRETAX	10 YEARS AFTERTAX	10 YEARS PRETAX	10 YEARS AFTERTAX		TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)		LARGEST HOLDING COMPANY (% ASSETS)	TOLL FREE (800)	IN-STATE
7.9	10.7	7.9				High	3	20	LB	-3	Clorox(2)	Low	869-3863	NY 212-392-2550
2.6						Very low	4	23	MB	15	Astra Cl A(3)		869-3863	NY 212-392-2550
0.9	9.6	7.2				Average	40	25	LB	6	Amoco(1)	Very low	869-3863	NY 212-392-2550
1.5	9.9	8.2	8.6	7.0		Average	2	26	MB	12	Mobil(4)	Average	869-3863	NY 212-392-2550
1.4						Average	3	30	MG	30	Hutchison Whampoa(3)		869-3863	NY 212-392-2550
10.0	14.1	12.6				High	1	23	LB	10	Alliedsignal(2)	Low	869-3863	NY 212-392-2550
4.4	12.5	10.6				Low	4	16	LV	14	AT&T(2)	Very low	869-3863	NY 212-392-2550
13.3	12.8	12.1				Very low	1	23	MB	23	Quantum Chemical()	Average	869-3863	NY 212-392-2550
1.5	10.2	8.7	13.3	11.2		High	9	31	MG	25	South American Fund(2)	Average	869-3863	NY 212-392-2550
1.1	13.2	10.6	12.2	8.6		High	5	20	MB	9	General Electric(2)	Low	523-4640	PA 215-988-1333
1.1	10.2	7.0	12.8	9.1		Average	3	22	LB	4	McGraw-Hill(2)	Average	523-4640	PA 215-988-1333
1.1	15.9	15.2				Average	7	25	SG	28	Preferred Health Care(3)	High	523-4640	PA 215-988-1333
1.9	24.1	20.3	14.1	12.0		Average	13	29	SG	22	WMS Industries(3)	High	523-4640	PA 215-988-1333
1.6	18.5	17.0				Average	29	20	SV	14	Reynolds & Reynolds Cl A(1)	Average	523-4640	PA 215-988-1333
not rated							10	23	LB	5	McDonald's(3)		748-8500	
1.7	12.6	12.0	12.0	11.3			4	NA		NA	NA	Average	225-6265	
1.9	14.0	12.0	14.2	11.3		Very low	5	26	LB	14	Dayton-Hudson(2)	Low		CA 415-434-0311
1.2	13.9	12.3	15.4	13.0		Very low	6	25	LB	27	Citicorp(3)	Average		CA 415-434-0311
1.1	11.4	9.3	11.8	8.0		Average	13	23	LB	24	Philip Morris(3)	Low	645-6561	NY 718-895-1206
1.6	12.7	11.1				Very low	1	22	LG	9	Coca-Cola(5)	Average	645-6561	NY 718-895-1206
1.5	5.9	3.9				Average	45	38	LG	-7	Newmont Mining(7)	Low	242-8671	NY 718-895-1396
1.6	13.9	11.1	13.9	10.2		High	39	24	LB	9	News (ADR)(3)	Low	242-8671	NY 718-895-1396
not rated						Low	0	15	MV	2	Pacific Gas & Electric(5)		645-6561	NY 718-895-1206
not rated							44	33	LB	14	Nikko Securities(1)		242-8671	NY 718-895-1396
not rated						High	14	26	MB	10	Brand(3)		645-6561	NY 718-895-1206
1.6	9.7	7.3	10.2	7.1		High	5	33	MG	13	DSC Communications(3)	High	645-6561	NY 718-895-1206
1.0	16.6	14.0				High	12	25	SB	18	Crompton & Knowles(2)	Average	645-6561	NY 718-895-1206
1.1	15.8	13.6				Very high	1	31	MG	14	Motorola(3)	Average	645-6561	NY 718-895-1206
1.6	12.2	12.2				Very high	33	38	MG	20	Homestake Mining(2)	Very low	645-6561	NY 718-895-1206
1.7	12.5	10.9	12.1	9.0		Average	9	22	MB	16	Astra Cl A(4)	Average	645-6561	NY 718-895-1206
not rated							1	23	MG	45	Hong Kong & Shanghai Bkg.(4)		225-6265	MA 617-482-8260
1.8	12.0	9.5	11.9	9.0		High	7	24	LB	25	Comcast Special Cl A(6)	Average	225-6265	MA 617-482-8260
1.0	15.7	13.2	10.3	8.1		Average	6	28	MG	30	Franklin Resources(4)	High	225-6265	MA 617-482-8260
1.2	11.9	8.2	13.3	9.3		Average	2	25	LG	16	PepsiCo(4)	Low	225-6265	MA 617-482-8260
1.9	12.5	9.1				Very low	2	18	MV	11	Pioneer Hi-Bred Intl(4)	Average	554-1156	
1.4	12.1	10.3				Very low	2	20	LV	12	Tandy(2)	Very low	554-1156	
1.0	13.0	10.8				High	3	19	SV	6	Best Buy(2)	Average	872-2710	NY 404-631-0414
not rated						Average	0	21	LB	13	General Electric(4)		637-6336	
1.2	19.9	19.6				Average	9	31	MG	21	Motorola(4)	Average	432-4320	GA 404-396-8118
1.0	15.0	12.2	12.8	9.1		High	1	24	LB	20	Intelligent Electronics(4)	Average	432-4320	GA 404-396-8118
1.9	15.0	14.4				Very low	-23	16	SV	19	Nabors Industries(124)	Very high	443-1021	NY 212-888-6685
1.5	15.3	14.1				Very low	20	26	LB	23	Nestle(2)	Low	421-0180	CA 213-486-9200
1.6	11.9	8.5	11.8	7.8		Low	2	22	LB	17	Reuters Holdings (ADR)(3)	Very low	225-6265	MA 617-482-8260
1.3	14.1	10.7	14.5	11.0		Low	1	15	LV	16	Entergy(5)	Low	225-6265	MA 617-482-8260
1.7	10.4	8.6	11.6	9.1		Low	-1	18	MV	35	Fannie Mae(4)	High	235-0064	NY 914-694-2020
1.9						High	10	19	MV	5	Intel(3)		235-0064	NY 914-694-2020
1.2						Very high	8	30	SB	14	Continental Homes Holding(3)		235-0064	NY 914-694-2020
1.1	14.6	11.4	17.3	14.8		Low	6	19	SV	16	Southern Electronics(2)	Average	235-0064	NY 914-694-2020
1.4	10.8	8.4	12.2	9.0		Very high	6	18	MV	NA	Texas Utilities(3)	Low	235-0064	NY 914-694-2020
1.5	14.4	12.4				Low	5	21	MB	24	Reynolds & Reynolds Cl A(3)	Average	235-0064	NY 914-694-2020
1.8	16.0	15.3				Very low	6	16	SV	3	CR Bard(4)	Average	932-3271	NY 518-234-7543
1.7	14.3	11.4	13.5	9.6		Very high	9	26	MB	16	Sears Roebuck(2)	Low	544-8888	
not rated							8	26	LG	17	Microsoft(3)		522-7297	MA 617-439-6793
1.1	19.6	17.8				Average	15	22	LB	11	Fannie Mae(4)	Average	522-7297	MA 617-439-6793
1.1	16.3	13.5				Very high	8	26	MB	4	Enserch(1)	Very low	522-7297	MA 617-439-6793
1.7						Average	27	33	MV	8	Sanwa Bank(3)		522-7297	MA 617-439-6793
1.1	15.5	12.9				Very high	9	22	LB	9	Bell Atlantic(4)	Low	522-7297	MA 617-439-6793
1.6	15.9	13.8				High	14	24	MB	0	Fannie Mae(1)	Very low	544-8888	
not rated						High	-1	24	MB	0	Citicorp(1)		544-8888	
not rated						Average	38	21	LV	2	British Petroleum (ADR)(1)		544-8888	

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	RAN O
FIDELITY BALANCED	▲ ▲ ▲	Balanced	4684.5	167	No load	0.93	19.3	16.2	4.3	
FIDELITY BLUE CHIP GROWTH	▲ ▲ ▲	Growth	1094.7	93	3.00	1.25	24.5	19.3	0.0	
FIDELITY CANADA		Foreign	109.0	308	3.00	2.00	25.5	25.4	0.0	
FIDELITY CAPITAL APPRECIATION		Maximum growth	1428.2	45	3.00	0.86	33.4	31.0	0.6	
FIDELITY CONTRAFUND	▲ ▲ ▲	Growth	6193.3	216	3.00	1.13	21.4	18.9	0.5	
FIDELITY DESTINY I	▲	Growth	3153.8	23	8.24	0.65	26.4	22.0	1.3	
FIDELITY DISCIPLINED EQUITY	▲ ▲	Growth	795.8	77	No load	1.09	13.9	11.8	1.1	
FIDELITY DIVERSIFIED INTERNATIONAL		Foreign	238.8	537	No load	1.47	36.7	36.3	0.1	
FIDELITY EMERGING GROWTH		Small company	652.6	2	3.75 *	1.19	19.9	14.0	0.0	
FIDELITY EMERGING MARKETS (f)		Foreign	1908.8	NM	4.50*	1.91	81.8	81.6	0.3	
FIDELITY EQUITY-INCOME	AVG	Equity-income	6641.9	33	2.00	0.64	21.3	19.9	3.4	
FIDELITY EQUITY-INCOME II		Equity-income	5021.9	131	No load	0.91	18.9	16.8	2.4	
FIDELITY EUROPE		Europe	494.9	13	3.00	1.25	27.2	27.0	0.4	
FIDELITY GROWTH & INCOME	▲ ▲	Growth/income	7684.0	59	3.00	0.85	19.5	17.6	2.3	
FIDELITY GROWTH COMPANY	▲ ▲	Growth	2542.7	40	3.00	1.11	16.2	13.1	0.2	
FIDELITY INTL. GROWTH & INCOME		Foreign	1068.3	1538	2.00	1.52	35.1	34.8	0.3	
FIDELITY JAPAN		Pacific	96.4	874	3.00	1.71	20.5	19.4	0.0	
FIDELITY LOW-PRICED STOCK		Small company	2060.1	-8	4.50*	1.12	20.2	17.0	0.8	
FIDELITY MAGELLAN	▲ ▲	Growth	31705.1	42	3.00	0.99	24.7	21.3	1.0	
FIDELITY MARKET INDEX		Growth/income	299.9	5	0.50*	0.45	9.6	8.7	2.3	
FIDELITY NEW MILLENNIUM		Growth	276.0	NM	3.00	1.77	24.7	23.9	0.1	
FIDELITY OTC	▲	Small company	1343.0	8	3.00	1.08	8.3	4.3	0.4	
FIDELITY OVERSEAS		Foreign	1519.6	94	3.00	1.27	40.1	39.4	1.6	
FIDELITY PACIFIC BASIN		Pacific	526.7	368	3.00	1.59	63.9	62.9	0.7	
FIDELITY PURITAN	▲ ▲	Balanced	8988.2	52	No load	0.74	21.4	17.2	4.2	
FIDELITY REAL ESTATE INVESTMENT	▲	Specialty	424.4	189	No load	1.17	12.5	11.0	4.4	
FIDELITY RETIREMENT GROWTH	▲	Growth	2848.2	29	No load	1.05	22.1	18.9	0.7	
FIDELITY SELECT AMERICAN GOLD		Precious metals	365.3	138	3.75 *	1.50	78.7	78.7	0.0	
FIDELITY SELECT AUTOMOTIVE	▲ ▲	Specialty	197.7	155	3.75 *	1.66	35.4	33.4	0.2	
FIDELITY SELECT BIOTECHNOLOGY	▲ ▲ ▲	Health care	557.2	-30	3.75 *	1.61	0.7	0.7	0.0	
FIDELITY SELECT BROKERAGE & INVEST.		Financial	94.4	363	3.75 *	1.64	49.3	46.2	0.1	
FIDELITY SELECT DEVELOPING COMM.		Technology	245.9	250	3.75 *	1.54	31.7	29.1	0.0	
FIDELITY SELECT ENERGY		Natural resources	82.5	20	3.75 *	1.56	19.1	17.9	0.2	
FIDELITY SELECT FINANCIAL SVCS.		Financial	126.1	-4	3.75 *	1.48	17.6	13.2	0.4	
FIDELITY SELECT FOOD & AGRICULTURE	▲ ▲ ▲	Specialty	173.1	47	3.75 *	1.56	8.8	6.3	0.2	
FIDELITY SELECT HEALTH CARE	▲	Health care	573.0	-24	3.75 *	1.57	2.4	2.4	0.1	
FIDELITY SELECT HOME FINANCE (g)	AVG	Financial	159.2	-23	3.75 *	1.47	27.3	25.3	0.0	
FIDELITY SELECT INDUSTRIAL EQUIP.		Technology	85.0	1418	3.75 *	1.89	43.3	42.5	0.1	
FIDELITY SELECT LEISURE	AVG	Specialty	117.5	183	3.75 *	1.62	39.6	36.9	0.0	
FIDELITY SELECT MEDICAL DELIVERY	AVG	Health care	150.5	-23	3.75 *	1.93	5.5	5.5	0.0	
FIDELITY SELECT PRECIOUS METALS		Precious metals	550.7	379	3.75 *	1.54	111.6	110.9	1.2	
FIDELITY SELECT REGIONAL BANKS	AVG	Financial	113.7	-51	3.75 *	1.47	11.0	5.1	0.7	
FIDELITY SELECT SOFTWARE & COMPUTER		Technology	164.8	15	3.75 *	1.49	32.5	25.2	0.0	
FIDELITY SELECT TECHNOLOGY	AVG	Technology	229.8	76	3.75 *	1.48	28.6	25.4	0.3	
FIDELITY SELECT TELECOMMUNICATIONS	▲	Utilities	414.6	273	3.75 *	1.48	29.6	25.8	0.5	
FIDELITY SELECT UTILITIES	▲ ▲ ▲	Utilities	275.5	12	3.75 *	1.31	12.4	7.9	2.7	
FIDELITY STOCK SELECTOR		Growth	624.7	78	3.00	1.10	14.0	11.9	1.2	
FIDELITY TREND	AVG	Growth	1393.2	26	No load	0.83	19.1	16.4	0.4	
FIDELITY UTILITIES INCOME	▲ ▲ ▲	Utilities	1456.0	52	No load	0.87	15.6	14.0	3.4	
FIDELITY VALUE	▲	Growth	1716.1	157	No load	1.11	22.9	20.4	0.8	
FIDELITY WORLDWIDE		World	339.6	243	3.00	1.40	36.5	35.8	0.8	
59 WALL ST. EUROPEAN EQUITY		Europe	101.6	NM	No load	1.50	27.1	25.3	4.6	
59 WALL ST. PACIFIC BASIN EQTY.		Pacific	122.9	NM	No load	1.50	74.9	73.4	1.5	
FIRST AMERICAN BALANCED		Balanced	121.5	NM	4.50	0.75†	12.3	10.7	3.3	
FIRST AMERICAN EQUITY INDEX		Growth	153.3	NM	4.50	0.35†	9.8	9.0	2.4	1
FIRST AMERICAN SPECIAL EQUITY	▲	Growth	93.1	67	4.50	0.81†	19.0	16.3	1.8	
FIRST AMERICAN STOCK	AVG	Growth	123.3	37	4.50	0.76†	15.1	13.5	1.8	
FIRST EAGLE FUND OF AMERICA	AVG	Growth	108.3	27	1.00*	2.90	23.9	20.5	0.0	
FIRST INVESTORS BLUE CHIP		Growth/income	112.1	14	6.25	1.46†	7.8	6.1	0.6	1
FIRST INVESTORS GLOBAL		World	209.4	16	6.25	1.83†	23.0	22.9	0.2	3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful
(f) Formerly Fidelity Intl. Opportunities Fund. (g) Formerly Fidelity Select Savings & Loan Port

SCOREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA					RISK	TELEPHONE	
5 YEARS	5 YEARS	10 YEARS	10 YEARS	10 YEARS		TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)		TOLL FREE (800)	IN-STATE
PRETAX	PRETAX	PRETAX	PRETAX	PRETAX	BW 10-YEAR ANALYSIS								
9	14.2	11.3				High	7	22	MV	3	Nikko Securities(1)	Very low	544-8888
7	23.6	22.0				Very high	9	29	MG	13	Intel(2)	Average	544-8888
1	11.5	10.3				High	5	36	MB	12	Noranda(4)	Average	544-8888
1	12.8	10.2				High	14	22	MB	31	Safra Republic Holdings(7)	Average	544-8888
3	26.5	24.5	17.7	15.4		Very high	16	28	MG	8	IBM(1)	Low	544-8888
0	19.7	16.0	17.4	13.2		Average	10	22	LB	23	Fannie Mae(4)	Average	752-2347 MA 617-439-0547
1	18.9	17.1				Very high	0	22	LB	8	Chevron(4)	Low	544-8888
ot rated						Average	11	27	MB	12	Kirin Brewery(1)		544-8888
0						Very high	11	30	MG	15	Sun Microsystems(3)		544-8888
6						Average	13	29	MG	19	Grupo Carso Cl A1(2)		544-8888
2	12.9	10.7	13.6	10.0		High	3	21	LV	20	General Electric(2)	Low	544-8888
7						Average	15	20	MV	9	British Petroleum (ADR)(3)		544-8888
3	10.3	9.6				Average	5	21	MB	9	IHC Caland(2)	High	544-8888
8	18.0	15.1				High	14	21	LB	NA	General Electric(3)	Low	544-8888
6	22.2	20.0	16.6	14.6		Very high	11	25	LG	18	Cisco Systems(3)	Average	544-8888
7	10.2	9.6				Low	6	32	LB	9	Nomura Securities(1)	Average	544-8888
ot rated						Very high	17	36	MB	NA	Orix(5)		544-8888
9						Average	10	17	SV	20	National Health Lab.(2)		544-8888
6	19.3	16.0	18.4	15.2		High	16	25	MB	20	Motorola(2)	Average	544-8888
4						Very low	0	22	LB	19	General Electric(2)		544-8888
ot rated							9	28	SG	12	Herman Miller(4)		544-8888
3	18.2	14.8				Very high	26	19	SV	16	Intel(2)	Average	544-8888
5	8.0	6.1				Average	8	29	LB	40	Murata Manufacturing(2)	High	544-8888
4	6.9	6.3				Average	0	39	MB	33	Kim Eng Holdings(2)	Very high	544-8888
2	14.3	11.2	14.6	10.6		Average	5	28	MB	10	WR Grace(2)	Low	544-8888
7	14.2	12.5				High	4	30	SB	5	Weingarten Realty(7)	Low	544-8888
3	18.2	15.3	16.0	12.6		High	17	22	MB	16	Warner-Lambert(3)	Average	544-8888
6	10.4	10.4				Low	7	49	MG	17	American Barrick Res.(12)	Very high	544-8888
5	20.6	19.4				Average	0	26	MB	16	AO Smith Cl B(7)	Average	544-8888
5	30.2	28.4				Low	14	29	MG	5	Chiron(6)	High	544-8888
9	22.3	21.5				Average	11	15	MV	17	T. Rowe Price Associates(5)	High	544-8888
0						Very high	15	32	SG	13	Vodafone Group (ADR)(4)		544-8888
5	9.7	8.4	8.7	7.5		High	3	22	LV	14	Royal Dutch Petroleum(7)	High	544-8888
6	19.6	17.9	16.0	14.6		High	1	12	MV	17	Bank Of New York(8)	Very high	544-8888
5	18.6	16.3				Average	8	21	MB	6	Ralston Purina(4)	Low	544-8888
4	22.4	19.9	19.1	17.6		Very high	10	24	MG	2	Warner-Lambert(9)	High	544-8888
9	25.1	24.0				Average	2	12	SV	35	Citicorp(5)	Very high	544-8888
1	15.1	14.8				High	4	32	SG	9	Caterpillar(8)	High	544-8888
4	17.1	16.0				High	14	31	MG	21	Blockbuster Entertainment(3)	Average	544-8888
2	24.5	23.2				Very high	24	23	MG	4	Galen Health Care(11)	Very high	544-8888
4	11.9	11.4	4.9	4.1		Average	10	35	MG	11	American Barrick Res.(10)	Very high	544-8888
1	22.4	19.8				High	0	12	MV	24	Citicorp(9)	High	544-8888
3	24.2	21.6				Very high	2	33	MG	13	Cabletron Systems(10)	Very high	544-8888
4	23.5	22.3	7.4	6.6		Very high	3	33	MG	17	Cabletron Systems(10)	High	544-8888
4	19.8	18.4				Average	5	28	LG	8	Motorola(7)	Average	544-8888
4	16.0	13.7	15.9	14.1		Average	3	16	MV	7	Bell Atlantic(4)	Very low	544-8888
3						Very high	2	19	MV	9	Chevron(4)		544-8888
5	16.9	14.8	14.0	11.3		Average	2	24	MB	25	Fannie Mae(4)	High	544-8888
3	14.8	12.4				Very low	3	16	LV	15	Southwestern Bell(3)	Very low	544-8888
1	15.0	13.2	11.8	10.3		High	11	24	MB	11	British Petroleum (ADR)(2)	Average	544-8888
8						Average	14	24	MV	11	Grupo Tribasa (ADR)(2)		544-8888
2						Average	10	22	MV	13	Cable & Wireless(2)		MA 212-493-8100
ot rated						Average	5	27	LG	34	New World Development(4)		MA 212-493-8100
ot rated							8	24	LB	5	Royal Dutch Petroleum(2)		637-2548 PA 612-973-1111
ot rated							1	22	LB	5	Exxon(3)		637-2548 PA 612-973-1111
9	13.4	11.3				High	23	31	MB	8	Alcoa(5)	Low	637-2548 PA 612-973-1111
2	13.4	12.2				Average	10	25	LB	9	ITT(3)	Average	637-2548 PA 612-973-1111
1	14.2	11.7				High	2	20	MV	25	Tejas Gas(7)	Average	451-3623 NY 212-943-9200
						Average	0	21	LB	19	Motorola(5)		423-4026 NY 212-858-8000
	10.6	9.5	13.2	11.7		Average	2	26	LB	15	Nestle(3)	High	423-4026 NY 212-858-8000

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	RA (%)
FIRST OMAHA EQUITY		Growth	120.9	NM	No load	1.01†	10.9	9.6	1.8	
FIRST UNION BALANCED TRUST (h)		Balanced	761.3	47	No load	0.66	10.7	9.2	3.7	
FIRST UNION VALUE B INVESTMENT (i)	AVG	Growth	189.9	13	4.00	1.02†	9.3	7.5	2.6	
FIRST UNION VALUE TRUST (j)		Growth	463.4	41	No load	0.67	9.7	7.7	2.9	
FLAG INVESTORS TELEPHONE INCOME A	★ ★	Utilities	468.9	52	4.50	0.92†	18.2	16.4	3.0	
FLAG INVESTORS VALUE BUILDER A		Balanced	119.7	103	4.50	1.35†	11.8	10.7	2.8	
FORTIS ADVANTAGE ASSET ALLOCATION	★ ★	Asset allocation	110.7	20	4.50	1.58†	11.3	9.0	2.4	
FORTIS CAPITAL	AVG	Growth	246.1	-2	4.75	1.20†	2.8	0.3	0.8	
FORTIS GROWTH		Growth	595.0	7	4.75	1.09†	10.4	8.5	0.0	
FORTRESS UTILITY	★ ★ ★	Utilities	1016.7	119	2.00*	1.07	15.2	13.5	4.7	
FOUNDERS BLUE CHIP	★	Growth/income	307.4	6	No load	1.29†	14.5	8.7	0.5	
FOUNDERS DISCOVERY		Small company	226.1	50	No load	1.69†	10.8	10.1	0.0	
FOUNDERS FRONTIER	AVG	Small company	253.0	74	No load	1.73†	16.5	15.2	0.0	
FOUNDERS GROWTH	AVG	Growth	343.0	137	No load	1.42†	25.5	23.3	0.0	
FOUNDERS SPECIAL	AVG	Maximum growth	432.9	-5	No load	1.37†	16.0	11.2	0.0	
FOUNDERS WORLDWIDE GROWTH		World	84.6	131	No load	2.01†	29.9	29.1	0.0	
FPA CAPITAL		Small company	153.7	23	6.50	1.04	16.7	14.1	0.2	
FPA PARAMOUNT	★ ★	Growth/income	335.1	14	6.50†	0.89	20.5	17.9	1.6	
FPA PERENNIAL	★	Growth/income	88.3	16	6.50	1.07	4.6	3.1	1.9	
FRANKLIN EQUITY		Growth	318.3	-11	4.00	0.69	8.5	4.8	1.5	
FRANKLIN GLOBAL UTILITIES		Utilities	88.2	NM	4.50	0.14†	31.5	30.5	2.2	
FRANKLIN GOLD		Precious metals	407.0	91	4.00	0.62	73.8	73.0	1.5	
FRANKLIN GROWTH	AVG	Growth	566.9	-4	4.00	0.64	8.5	7.3	3.2	
FRANKLIN INCOME	★ ★ ★	Income	4327.8	58	4.00	0.54	21.5	18.5	7.2	
FRANKLIN RISING DIVIDENDS	AVG	Growth/income	341.9	73	4.00	1.40†	-3.5	-4.0	1.7	
FRANKLIN UTILITIES	★ ★	Utilities	3487.4	43	4.00	0.55	11.5	9.6	5.3	
FREMONT GLOBAL (k)	★ ★	Asset allocation	214.6	96	No load	0.99	19.6	18.6	2.4	
FT INTERNATIONAL EQUITY A		Foreign	213.7	107	4.50	1.58	31.3	31.1	0.4	
FUNDAMENTAL INVESTORS	AVG	Growth/income	1979.3	37	5.75	0.65†	18.2	14.1	2.1	
G. T. AMERICA GROWTH A		Small company	119.0	-29	4.75	1.80†	8.3	6.2	0.0	
G. T. EUROPE GROWTH A		Europe	855.8	8	4.75	2.00†	28.3	28.0	0.7	
G. T. GLOBAL EMERGING MARKETS A		Foreign	285.8	234	4.75	2.40†	64.5	63.7	1.5	
G. T. GLOBAL GROWTH & INCOME A		World	275.5	78	4.75	1.85†	27.4	25.7	4.3	
G. T. GLOBAL HEALTH CARE A		Health care	456.5	-32	4.75	2.09†	2.6	2.5	0.3	
G. T. GLOBAL TELECOMMUNICATIONS A		Utilities	1386.9	183	4.75	2.22†	47.7	47.0	0.5	
G. T. INTERNATIONAL GROWTH A		Foreign	523.5	24	4.75	1.90†	34.2	34.2	0.0	
G. T. JAPAN GROWTH A		Pacific	88.7	-6	4.75	2.10†	33.4	33.4	0.0	
G. T. LATIN AMERICA GROWTH A		Foreign	201.5	110	4.75	2.40†	52.9	52.3	0.8	
G. T. PACIFIC GROWTH A	AVG	Pacific	501.4	78	4.75	2.00†	60.6	58.8	0.0	
G. T. WORLDWIDE GROWTH A	AVG	World	193.8	37	4.75	2.00†	27.6	25.7	0.5	
GABELLI ASSET	★ ★	Growth	948.0	50	No load	1.31†	21.8	20.5	0.7	
GABELLI GROWTH	★	Growth	695.9	11	No load	1.39†	11.3	10.3	0.4	
GABELLI SMALL CAP GROWTH		Small company	215.0	73	4.50	1.64†	22.8	21.9	0.0	
GABELLI VALUE		Growth	496.2	17	5.50	1.53†	39.4	33.8	0.4	
GALAXY ASSET ALLOCATION RETAIL		Asset allocation	110.3	964	No load	1.01	8.1	7.3	2.3	
GALAXY EQUITY GROWTH RETAIL		Growth	432.9	70	No load	0.98	5.4	4.7	1.2	
GALAXY EQUITY VALUE RETAIL	AVG	Growth	181.9	31	No load	0.96	14.7	13.6	1.4	
GALAXY EQUITY-INCOME RETAIL		Equity-income	126.9	330	No load	1.06	8.1	6.7	2.3	
GAM INTERNATIONAL	★	Foreign	80.7	97	5.00	1.63	80.0	77.4	1.4	
GATEWAY INDEX PLUS	★ ★ ★	Growth/income	207.2	-2	No load	1.03	7.4	5.9	1.8	
GEORGE PUTNAM FUND OF BOSTON A	★	Balanced	833.0	27	5.75	0.90†	10.9	8.2	4.4	
GINTEL		Growth	136.1	-17	No load	1.70	2.0	-0.9	3.2	
GLOBAL UTILITY B		Utilities	267.9	308	5.00**	1.13†	22.0	20.6	2.5	
GOLDMAN SACHS CAPITAL GROWTH		Growth	814.4	36	5.50	1.38†	14.2	12.0	0.9	
GOLDMAN SACHS SELECT EQUITY		Growth/income	88.9	-23	5.50	1.28†	12.8	9.3	3.3	
GRADISON-MCDONALD ESTAB. VALUE		Growth	244.3	32	No load	1.28†	20.8	19.0	0.9	
GRADISON-MCDONALD OPPORT. VALUE		Small company	83.9	39	No load	1.44†	11.1	9.6	0.4	
GROWTH FUND OF AMERICA	AVG	Growth	5062.5	17	5.75	0.77†	14.5	13.2	0.4	
GUARDIAN PARK AVENUE	AVG	Growth	560.0	67	4.50	0.82†	20.3	18.4	1.7	
HANCOCK FREEDOM NATL. AVIATION		Technology	77.6	9	5.00	1.49	20.9	17.7	0.0	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful

(h) Formerly Salem Balanced Portfolio Trust Shares. (i) Formerly Salem Value Portfolio Investment Shares. (j) Formerly Salem Value Portfolio Trust Shares. (k) Formerly Fremont Multi Asset

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA					RISK	TELEPHONE	
1 YEAR	5 YEARS	10 YEARS				TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)		TOLL FREE (800)	IN-STATE
PRETAX	PRETAX	PRETAX	AFTERTAX	AFTERTAX	BW 10-YEAR ANALYSIS					LARGEST HOLDING COMPANY (% ASSETS)			
not rated							16	20	LV	6		662-4203	
not rated						Very low	6	21	LV	11		326-2584	PA 704-374-4343
1.7	12.6	10.2				Average	4	20	LV	9	Low	326-3241	PA 704-374-4343
not rated						Average	4	20	LV	7		326-2584	PA 704-374-4343
6.4	17.7	15.6				Very low	4	20	LB	30	Low	767-3524	
not rated							15	18	MV	8		767-3524	
3.6	13.2	11.7				Average	2	31	MG	15	Very low	800-2638	MN 612-738-4000
6.0	15.4	13.1	13.1	10.3		Low	12	34	MG	28	Average	800-2638	MN 612-738-4000
1.6	20.1	18.1	14.9	12.7		Low	14	38	MG	39	High	800-2638	MN 612-738-4000
4.5	15.0	12.9				Low	3	15	MV	10	Very low	245-5051	PA 412-288-1900
9.5	14.8	10.6	13.4	8.5		Very high	11	23	LB	9	Low	525-2440	CO 303-394-4404
6.6						High	15	28	SG	16		525-2440	CO 303-394-4404
2.3	20.4	19.1				High	17	29	SG	19	High	525-2440	CO 303-394-4404
1.7	19.6	16.8	14.5	11.8		Very high	14	31	MG	12	High	525-2440	CO 303-394-4404
3.9	20.7	16.6	13.9	10.8		Very high	11	24	LB	11	High	525-2440	CO 303-394-4404
0.8						High	16	28	MG	21		525-2440	CO 303-394-4404
0.3	20.3	17.4	16.0	13.0		Low	3	20	SV	41	Very high	982-4372	CA 310-473-0225
5.0	15.5	11.6	15.2	11.2		High	28	29	MB	18	Low	982-4372	CA 310-473-0225
1.2	12.8	10.4				Average	21	19	MB	22	Very low	982-4372	CA 310-473-0225
9.8	8.7	6.5	12.6	9.6		Average	2	20	MV	10	High	342-5236	CA 415-312-2000
not rated							15	18	LV	7		342-5236	CA 415-312-2000
2.9	10.9	9.9	7.1	5.5		Very low	7	40	MG	26	Very high	342-5236	CA 415-312-2000
1.3	12.3	11.3	13.1	11.9		Very low	3	22	LB	21	Low	342-5236	CA 415-312-2000
2.0	15.2	11.6	14.3	9.8		Low	5	16	LV	11	Very low	342-5236	CA 415-312-2000
2.5	11.7	10.8				Very low	15	17	MV	4	Low	342-5236	CA 415-312-2000
2.7	13.8	11.6	14.0	11.1		Very low	7	15	LV	12	Low	342-5236	CA 415-312-2000
3.0	11.2	9.7				Average	8	27	LB	15	Very low	548-4539	
2.7	6.8	5.6				High	6	34	MB	41	High	245-5051	PA 412-288-1900
5.2	15.4	12.1	15.3	12.0		Low	5	23	LB	20	Average	421-0180	CA 415-421-9360
2.6	19.5	18.1				High	17	21	SV	17	High	824-1580	CA 415-392-6181
1.7	7.3	7.2				Average	4	21	LB	-4	High	824-1580	CA 415-392-6181
not rated						High	10	27		27		824-1580	CA 415-392-6181
1.2						Average	9	19	LV	15		824-1580	CA 415-392-6181
0.8						Low	5	28	MG	24		824-1580	CA 415-392-6181
not rated						Low	5	29	LG	25		824-1580	CA 415-392-6181
1.5	11.2	10.9				High	3	29	LB	25	Average	824-1580	CA 415-392-6181
1.5	3.1	2.7				Very high	4	45	MG	24	Very high	824-1580	CA 415-392-6181
not rated						Average	9	28		31		824-1580	CA 415-392-6181
1.5	17.1	15.8	17.9	14.8		High	8	35	MG	27	High	824-1580	CA 415-392-6181
0.8	13.8	13.1				High	2	30	LG	23	Average	824-1580	CA 415-392-6181
1.1	14.7	13.1				Low	12	25	MB	24	Low	422-3554	NY 914-921-5100
1.1	16.5	15.4				Average	4	25	MG	21	Average	422-3554	NY 914-921-5100
not rated						Low	5	25	SB	21		422-3554	NY 914-921-5100
1.2						Very low	20	23	LB	22		422-3554	NY 914-921-5100
not rated							6	22	LB	3		628-0414	
0.8						Low	14	23	LG	10		628-0414	
1.5	11.6	9.4				High	21	19	LV	16	Average	628-0414	
1.1						Low	9	24	LB	2		628-0414	
1.7	19.5	16.8				High	-4	17	MB	34	Average	426-4685	NY 212-888-4200
1.6	11.9	9.1	10.4	7.5		Low	1	23	LB	6	Very low	354-6339	OH 513-248-2700
1	12.5	9.4	12.2	8.0		High	7	22	LB	5	Low	225-1581	MA 617-292-1000
1.5	11.2	8.9	10.3	7.4		Average	20	23	SB	14	High	243-5808	CT 203-622-6400
not rated						Average	7	17	LV	10		225-1852	
6						Average	6	21	MB	21		762-5035	
not rated						High	1	17	LV	12		762-5035	
3	11.6	10.1	14.0	12.0		Low	30	18	MV	25	Average	869-5999	OH 513-579-5700
3	13.1	11.7	11.7	10.5		Average	36	15	SV	20	Average	869-5999	OH 513-579-5700
4	15.8	13.7	14.0	12.0		Low	15	25	LG	29	Average	421-0180	CA 415-421-9360
6	16.3	13.4	16.7	13.2		Average	7	16	MV	22	Average	221-3253	
2	13.0	9.6	10.5	7.7		Low	3	25	MB	57	High	225-5291	

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG. 1992-93	FEES		1993 RETURNS (%)			
					SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	RAN O
HANCOCK FREEDOM REGIONAL BANK B	★ ★ ★	Financial	175.5	148	4.00**	1.96†	20.5	18.6	0.8	
HANCOCK GROWTH A	★	Growth	163.1	7	5.00	1.58†	13.2	9.7	0.0	1
HANCOCK SOVEREIGN ACHIEVERS B	★	Growth	100.1	150	4.00**	2.22†	8.8	7.7	0.2	1
HANCOCK SOVEREIGN BALANCED B	★	Balanced	76.8	436	4.00**	2.09†	10.6	9.1	3.5	
HANCOCK SOVEREIGN INVESTORS A	★ ★	Growth/income	1256.6	44	5.00	1.09†	5.7	4.6	2.8	1
HANCOCK SPECIAL EQUITIES A	★	Small company	287.8	313	5.00†	1.87†	19.7	19.7	0.0	
HARBOR CAPITAL APPRECIATION	AVG	Growth	149.9	43	No load	0.86	12.1	10.0	0.2	1
HARBOR GROWTH	★	Growth	192.8	-5	No load	0.90	18.4	18.3	0.1	
HARBOR INTERNATIONAL	AVG	Foreign	2537.9	233	No load†	1.20	45.4	45.0	0.9	
HEARTLAND VALUE	★	Small company	186.5	279	3.00**	1.50†	18.8	17.4	0.0	
HERITAGE CAPITAL APPRECIATION	★	Growth	77.4	9	4.00	1.56†	18.4	15.6	1.7	
HIGHMARK INCOME-EQUITY	★	Equity-income	210.1	145	No load	1.15	12.8	10.9	3.0	
IAI EMERGING GROWTH	★	Small company	227.3	127	No load	1.25†	14.8	14.1	0.0	
IAI GROWTH & INCOME (I)	★	Growth/income	130.7	-4	No load	1.25†	10.0	6.6	0.4	
IAI INTERNATIONAL	★	Foreign	121.8	146	No load	1.85†	40.2	39.0	2.5	
IAI REGIONAL	★	Growth	650.8	4	No load	1.25†	9.0	6.3	0.8	1
IBM LARGE COMPANY INDEX	★	Growth/income	149.2	20	No load	0.40	9.5	8.6	2.4	
IBM SMALL COMPANY INDEX	★	Small company	263.8	46	No load	0.40	11.3	10.3	1.3	
IDEX	AVG	Growth	344.1	6	8.50	1.31	4.1	2.5	0.4	1
IDEX 3	★	Growth	194.5	-9	8.50†	1.22	5.2	1.9	0.3	1
IDEX II GROWTH A	AVG	Growth	528.8	10	5.50	1.60†	3.6	2.8	0.2	1
IDS BLUE CHIP ADVANTAGE	★	Growth/income	142.6	18	5.00	1.10	12.2	9.8	1.5	
IDS DISCOVERY	★	Small company	525.6	30	5.00	1.03	9.5	8.4	0.0	
IDS DIVERSIFIED EQUITY-INCOME	★	Equity-income	621.8	188	5.00	0.96	25.0	22.5	3.5	
IDS EQUITY PLUS	★	Growth/income	641.5	29	5.00	0.75	14.6	11.5	0.9	
IDS GLOBAL GROWTH	★	World	325.4	322	5.00	1.51	39.1	38.5	0.3	
IDS GROWTH	AVG	Growth	984.9	2	5.00	0.87	8.6	5.7	0.0	1
IDS INTERNATIONAL	★	World	511.5	122	5.00	1.47	32.3	31.4	0.9	
IDS MANAGED RETIREMENT	★ ★	Growth/income	1959.0	33	5.00	0.84	15.0	12.3	1.2	
IDS MUTUAL	★	Balanced	2891.2	25	5.00	0.79	14.4	11.3	4.1	
IDS NEW DIMENSIONS	★ ★	Growth	3739.8	40	5.00	0.92	14.0	12.5	0.5	
IDS PROGRESSIVE	★	Growth	268.3	28	5.00	1.09	12.0	9.0	1.4	1
IDS STOCK	★ ★	Growth/income	2102.1	22	5.00	0.73	16.6	12.9	2.4	
IDS STRATEGY AGGRESSIVE EQUITY	★	Maximum growth	672.3	19	5.00**	1.75†	7.9	5.4	0.0	
IDS STRATEGY EQUITY	★	Growth/income	1009.2	53	5.00**	1.58†	16.4	13.7	1.7	
IDS STRATEGY WORLDWIDE GROWTH	★	World	164.2	255	5.00**	2.75†	31.1	31.1	0.0	
IDS UTILITIES INCOME	★ ★ ★	Utilities	796.4	56	5.00	0.86	18.8	15.4	3.8	
INCOME FUND OF AMERICA	★ ★ ★	Income	10338.9	59	5.75	0.62†	14.0	11.3	5.6	
INTERNATIONAL EQUITY	★	Foreign	343.9	99	No load	0.96	45.7	45.6	0.4	
INVESCO DYNAMICS (m)	AVG	Maximum growth	319.2	17	No load	1.20†	19.1	17.1	0.0	
INVESCO EMERGING GROWTH (n)	★	Small company	223.0	81	No load	1.54†	23.3	23.3	0.0	
INVESCO EUROPEAN (o)	★	Europe	307.2	146	No load	1.29	24.6	24.2	1.0	
INVESCO GROWTH (p)	★	Growth	510.2	14	No load	1.04†	17.9	15.3	0.5	
INVESCO INDUSTRIAL INCOME (q)	★ ★ ★	Equity-income	3905.8	42	No load	0.98†	16.7	14.0	3.5	
INVESCO INTERNATIONAL GROWTH (r)	★	Foreign	113.1	221	No load	0.69	27.9	27.7	0.4	
INVESCO PACIFIC BASIN (s)	★	Pacific	274.8	1126	No load	1.78	42.6	41.7	0.3	
INVESCO STRATEGIC FINL. SERVICES (t)	★ ★ ★	Financial	339.2	38	No load	1.07	18.5	11.0	1.0	
INVESCO STRATEGIC GOLD (u)	★	Precious metals	316.0	470	No load	1.41	72.6	72.6	0.0	
INVESCO STRATEGIC HEALTH SCIENCES (v)	AVG	Health care	566.2	-29	No load	1.00	-8.4	-8.4	0.0	
INVESCO STRATEGIC LEISURE (w)	★ ★ ★	Specialty	304.5	284	No load	1.51	35.7	32.9	0.0	
INVESCO STRATEGIC TECHNOLOGY (x)	AVG	Technology	251.6	-2	No load	1.12	15.0	11.2	0.0	
INVESCO STRATEGIC UTILITIES (y)	★ ★	Utilities	174.5	61	No load	1.13	21.2	15.1	2.1	
INVESTMENT COMPANY OF AMERICA	★	Growth/income	19005.0	23	5.75	0.58†	11.6	9.6	2.4	
IVY GROWTH A	★	Growth	243.5	27	5.75	1.33†	12.2	9.1	0.5	
IVY INTERNATIONAL A	★	Foreign	169.9	55	5.75	1.71†	48.2	47.8	0.2	
JANUS	★ ★ ★	Growth	9199.6	58	No load	0.92	10.9	8.8	1.9	
JANUS BALANCED	★	Balanced	77.4	500	No load	1.70	10.0	9.6	1.3	
JANUS ENTERPRISE	★	Growth	258.6	161	No load	1.36	15.6	14.8	0.1	
JANUS GROWTH & INCOME	★	Growth/income	513.8	65	No load	1.28	6.7	5.7	1.1	
JANUS TWENTY	★	Growth	3515.9	12	No load†	1.05	3.4	2.6	1.0	

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful.

(I) Formerly IAI Stock Fund. (m) Formerly Financial Dynamics Fund. (n) Formerly Financial Emerging Growth Fund. (o) Formerly Financial Strategic European. (p) Formerly Financial Industrial Fund. (q) Formerly Financial Industrial Income Fund. (r) Formerly Financial International Growth Fund. (s) Formerly Financial Strategic Pacific Basin. (t) Formerly Financial Strategic Financial Svcs.. (u) Formerly Financial Strategic Gold. (v) Formerly Financial Strategic Health Sciences. (w) Formerly Financial Strategic Leisure. (x) Formerly Financial Strategic Technology. (y) Formerly Financial Strategic Utilities.

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)			TREND		PORTFOLIO DATA					RISK		TELEPHONE	
5 YEARS	5 YEARS	10 YEARS	BW	10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)		TOLL FREE (800)	IN-STATE
PRETAX	AFTERTAX	PRETAX											
2.7	22.1	19.5			Average	12	13	SV	18	Crossland Savings(2)	Average	225-5291	
5.9	15.3	12.3			Average	1	29	MG	24	Brinker International(3)	High	225-5291	
3.1	9.9	8.3			Very high	1	24	LB	6	Air Products & Chemicals(3)	Average	225-5291	
not rated						10	21	LB	2	Questar(2)		225-5291	
2.3	13.8	11.5			Low	5	20	LB	5	General Electric(3)	Very low	225-5291	
4	27.5	26.9			High	1	32	SG	24	CUC International(4)	High	225-5291	
2	18.4	15.4			High	3	29	LG	20	JP Morgan(3)	High	422-1050	OH 419-247-2477
8	13.9	11.3			Very high	3	33	MG	21	CUC International(2)	High	422-1050	OH 419-247-2477
3	16.8	15.8			Low	6	26	LV	21	YPF (ADR)(2)	Average	422-1050	OH 419-247-2477
6	17.4	15.2			Average	-4	15	SV	14	ADT(5)	Average	432-7856	WI 414-347-7777
4	13.0	10.8			Average	16	25	MB	24	FHLMC(5)	Average	421-4184	FL 813-573-8143
7	11.0	8.7			Low	9	19	LV	7	Nynex(4)	Average	433-6884	
not rated					High	9	47	MG	19	American Power Conv.(4)		945-3863	MN 612-376-2600
7	11.9	8.1			Very high	2	19	LB	10	Enron(3)	Average	945-3863	MN 612-376-2600
4	9.1	7.9			Low	4	27	MV	15	Veba(3)	High	945-3863	MN 612-376-2600
8	14.9	11.4			High	25	22	MB	8	Johnson Controls(3)	Average	945-3863	MN 612-376-2600
0					Very low	4	22	LB	15	General Electric(2)		426-9876	
3					Very low	4	23	MB	15	Microsoft(1)		426-9876	
2	19.0	15.9			Average	2	22	LG	17	Merrill Lynch(5)	High	624-4339	FL 813-585-6565
7	19.0	16.1			High	0	22	LG	21	Merrill Lynch(5)	High	624-4339	FL 813-585-6565
5	19.0	16.0			Average	-1	18	LB	14	Banc One(5)	High	624-4339	FL 813-585-6565
7					Very high	2	22	LB	10	Pacific Telesis Group(6)		328-8300	MN 612-671-3733
7	19.0	17.5			Average	7	36	MG	25	HBO(3)	High	328-8300	MN 612-671-3733
5					Average	1	24	MB	9	Macmillan Bloedel(1)		328-8300	MN 612-671-3733
3	15.9	13.2			Average	6	25	MB	27	Goodyear Tire & Rubber(3)	Average	328-8300	MN 612-671-3733
3					Low	15	26	MB	16	Pfleiderer Bau(2)		328-8300	MN 612-671-3733
3	19.5	13.5			Average	2	30	LG	31	Home Depot(5)	High	328-8300	MN 612-671-3733
0	9.1	7.3			Average	5	31	LV	18	Rank Organisation(2)	High	328-8300	MN 612-671-3733
2	19.8	16.7			Average	6	23	LB	21	General Electric(2)	Low	328-8300	MN 612-671-3733
9	12.4	9.0			Average	3	18	MV	9	Travelers(1)	Very low	328-8300	MN 612-671-3733
1	20.2	17.8			Average	12	27	LG	22	Fannie Mae(4)	Average	328-8300	MN 612-671-3733
4	9.0	6.6			Average	13	20	SV	5	Thiokol(3)	Average	328-8300	MN 612-671-3733
3	16.0	11.9			Average	8	23	LB	16	Travelers(2)	Low	328-8300	MN 612-671-3733
4	16.3	14.6			Average	4	34	MG	22	Cisco Systems(3)	High	328-8300	MN 612-671-3733
4	14.0	11.2			Average	9	22	MB	14	MBNA(2)	Low	328-8300	MN 612-671-3733
2	5.4	5.3			High	7	30	LV	9	Rank Organisation(2)	High	328-8300	MN 612-671-3733
2	15.1	12.5			Average	5	18	MV	10	Equitable Resources(2)	Very low	328-8300	MN 612-671-3733
9	13.5	10.7			Low	3	18	LV	8	Eli Lilly(1)	Very low	421-0180	CA 415-421-9360
2	9.7	8.6			Average	1	34	MB	26	Murata Manufacturing(1)	High	344-8332	NY 212-841-3841
8	20.9	19.1			High	16	37	MG	25	Newbridge Networks(2)	High	525-8085	CO 303-930-6300
not rated					High	29	36	SG	20	Microchip Technology(1)		525-8085	CO 303-930-6300
9	9.2	8.6			High	4	22	LV	9	British Telecom.(2)	High	525-8085	CO 303-930-6300
9	17.5	15.2			Average	5	23	LB	24	Primerica(5)	Average	525-8085	CO 303-930-6300
6	18.1	15.1			High	8	21	LV	12	Telefonos De Chile (ADR)(3)	Low	525-8085	CO 303-930-6300
0	3.5	3.0			Low	7	34	LB	10	Assicurazioni Generali(2)	Very high	525-8085	CO 303-930-6300
4	4.9	4.4			High	3	36	MB	13	Fujitsu(2)	Very high	525-8085	CO 303-930-6300
9	27.1	24.2			Very high	6	11	MV	0	Citicorp(5)	Average	525-8085	CO 303-930-6300
7	6.6	6.5			High	2	46	SG	14	Franco-Nevada Mining (Can.)(7)	Very high	525-8085	CO 303-930-6300
7	24.7	23.3			High	1	29	SG	4	Mylan Laboratories(4)	High	525-8085	CO 303-930-6300
7	25.8	22.5			High	11	33	SG	14	Clear Channel Comm.(2)	Average	525-8085	CO 303-930-6300
4	26.1	23.9			Very high	14	32	SG	13	ALC Communications(5)	Very high	525-8085	CO 303-930-6300
3	15.2	12.2			Very high	6	16	MV	1	PSI Resources(4)	Low	525-8085	CO 303-930-6300
1	14.5	12.4			Very low	3	20	LB	23	Fannie Mae(2)	Low	421-0180	CA 213-486-9200
7	13.6	10.4			Average	3	21	LB	8	General Electric(3)	Average	456-5111	FL 407-393-8900
4	14.1	13.1			Low	6	27	LV	31	Swire Pacific CI A(3)	High	456-5111	FL 407-393-8900
1	19.7	17.0			High	23	23	LB	8	Wal-Mart Stores(4)	Average	525-8983	
not rated					High	5	23	MG	5	Gillette(4)		525-8983	
not rated					Very high	15	28	MG	12	RP Scherer(7)		525-8983	
not rated					High	8	23	LB	9	Fannie Mae(4)		525-8983	
6	22.0	21.3			High	7	20	LB	11	Fannie Mae(7)	High	525-8983	

gic Health Sciences. (w) Formerly Financial Strategic Leisure. (x) Formerly Financial Strategic Technology. (y) Formerly Financial Strategic Utilities.

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG 1992-93	FEES		1993 RETURNS (%)		
					SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD
JANUS VENTURE	★ ★ ★	Small company	1778.7	4	No load†	0.97	9.1	6.3	1.0
JANUS WORLDWIDE		World	935.2	349	No load	1.32	28.4	27.5	1.1
JAPAN		Pacific	471.1	15	No load	1.29	23.6	21.4	2.6
KAUFMANN	★ ★	Maximum growth	965.4	208	0.20*	2.66†	18.2	17.8	1.0
KEMPER BLUE CHIP	AVG	Growth/income	189.0	-5	5.75	1.46	3.4	1.2	5.1
KEMPER GROWTH	AVG	Growth	1662.2	0	5.75	1.00	1.6	-0.3	0.6
KEMPER INTERNATIONAL		Foreign	327.3	91	5.75	1.36	35.7	34.7	0.3
KEMPER INVMT. GROWTH INITIAL		Growth	808.0	7	4.00**	2.06†	4.5	3.3	0.0
KEMPER INVMT. SMALL CAP. EQ. INIT.		Small company	117.6	226	4.00**	NA†	15.5	15.5	0.0
KEMPER INVMT. TOTAL RETURN INIT.	★	Balanced	1374.2	25	4.00**	1.96†	8.2	6.5	2.2
KEMPER RETIREMENT II		Balanced	201.3	2	5.00†	0.95	12.5	9.8	4.3
KEMPER RETIREMENT III		Balanced	144.4	10	5.00†	0.95	13.6	12.4	3.4
KEMPER SMALL CAP. EQUITY		Small company	487.5	19	5.75	1.03	16.8	14.9	0.3
KEMPER TECHNOLOGY		Technology	622.8	5	5.75	0.82	11.7	9.8	0.0
KEMPER TOTAL RETURN	★	Balanced	1463.4	13	5.75	1.06	11.6	7.8	3.6
KEYSTONE AMER. HARTWELL EM GR A (z) ★		Small company	172.0	-12	5.75	1.60†	4.4	1.8	0.0
KEYSTONE AMERICA OMEGA A	AVG	Maximum growth	90.4	24	5.75	1.47†	19.3	16.2	0.0
KEYSTONE CUSTODIAN K-1	★	Balanced	1529.0	14	4.00**	1.93†	10.3	7.9	3.8
KEYSTONE CUSTODIAN K-2		Growth	393.7	10	4.00**	1.89†	13.1	10.5	0.0
KEYSTONE CUSTODIAN S-1		Growth/income	221.2	-5	4.00**	2.28†	9.8	7.3	1.1
KEYSTONE CUSTODIAN S-3		Growth	273.9	-5	4.00**	1.74†	8.8	6.8	0.3
KEYSTONE CUSTODIAN S-4		Maximum growth	1071.0	15	4.00**	2.04†	25.3	22.2	0.0
KEYSTONE INTERNATIONAL		Foreign	142.7	118	4.00**	2.94†	30.4	30.4	0.0
KEYSTONE PRECIOUS METALS ★		Precious metals	223.7	109	4.00**	2.49†	101.9	101.9	0.0
KIDDER PEABODY ASSET ALLOCATION B		Asset allocation	104.9	30	1.00*	1.75†	7.6	7.2	1.0
KIDDER PEABODY EQUITY-INCOME A	AVG	Equity-income	107.0	-31	5.75	1.35†	1.7	-2.1	1.7
KIDDER PEABODY GLOBAL EQUITY A		World	189.3	55	5.75	1.53†	30.8	30.3	0.0
LANDMARK BALANCED	AVG	Balanced	265.2	1634	3.50	1.29†	8.5	7.5	2.2
LANDMARK EQUITY		Growth	200.9	1730	3.50	1.19†	12.3	12.1	0.3
LAUREL STOCK	★ ★	Growth/income	201.9	314	No load	0.90†	11.8	10.7	1.5
LEGG MASON SPECIAL INVESTMENT	★ ★	Small company	510.0	77	No load	2.00†	24.1	23.9	0.1
LEGG MASON TOTAL RETURN	AVG	Growth/income	175.1	58	No load	1.95†	14.1	12.3	2.9
LEGG MASON VALUE ★		Growth	913.9	9	No load	1.84†	11.3	10.6	1.2
LEXINGTON CORPORATE LEADERS	★	Growth/income	142.8	35	No load	0.62	17.6	15.2	6.8
LEXINGTON GLOBAL		World	87.0	73	No load	1.50	31.9	29.1	0.4
LEXINGTON GOLDFUND		Precious metals	159.5	122	No load	1.76†	87.0	86.8	0.2
LEXINGTON GROWTH & INCOME	AVG	Growth/income	134.5	7	No load	1.20†	13.2	9.3	1.1
LEXINGTON STRATEGIC INVESTMENTS		Precious metals	84.5	881	5.75	2.78	264.9	264.9	0.0
LEXINGTON WORLDWIDE EMERGING	★	Foreign	227.5	657	No load	1.89	63.4	62.8	0.0
LIBERTY FINANCIAL UTILITIES		Utilities	306.1	109	4.50	1.20†	15.0	12.9	4.8
LIBERTY UTILITY A	★ ★ ★	Utilities	929.5	43	4.50	1.11	15.1	13.4	4.8
LINDNER ★	★	Growth	1469.4	37	2.00*	0.80	19.8	18.4	1.9
LINDNER DIVIDEND ★	★ ★ ★	Income	1374.5	93	2.00*	0.74	14.9	12.1	6.2
LORD ABBETT DEVELOPING GROWTH		Small company	137.6	-8	5.75	1.31†	12.6	9.7	0.0
LORD ABBETT VALUE APPRECIATION	AVG	Growth	202.5	17	5.75	1.22†	14.1	10.7	1.4
MAINSTAY CAPITAL APPRECIATION	AVG	Growth	343.5	85	5.00**	1.80†	14.0	13.1	0.0
MAINSTAY TOTAL RETURN	★	Balanced	554.0	51	5.00**	1.80†	10.5	9.4	2.4
MAINSTAY VALUE	★ ★	Growth/income	310.2	203	5.00**	1.90†	13.5	12.2	0.4
MANAGERS SPECIAL EQUITY	AVG	Small company	98.9	87	No load	1.28	17.4	14.7	0.0
MARINER TOTAL RETURN EQUITY	AVG	Growth/income	77.7	2053	5.00	0.28†	11.2	10.0	2.5
MARSHALL STOCK		Growth/income	265.2	-11	No load	0.94	3.3	3.0	1.1
MASSACHUSETTS INV. GROWTH STOCK A		Growth	1133.0	5	5.75	0.68†	14.5	9.7	0.0
MASSACHUSETTS INVESTORS A	★	Growth/income	1626.1	5	5.75	0.68†	10.0	5.2	2.9
MATHERS ★	★ ★	Growth	435.9	-21	No load	0.88	2.1	1.7	1.5
MENTOR GROWTH		Growth	186.7	37	5.00**	2.02†	15.6	13.4	0.0
MERIDIAN	★	Small company	160.3	369	No load	1.47	13.1	12.5	1.2
MERRILL LYNCH BALANCED B	AVG	Balanced	830.9	-5	4.00**	1.87†	14.7	11.2	1.8
MERRILL LYNCH BASIC VALUE A ★		Growth/income	2180.6	27	6.50	0.54	22.2	20.1	2.8
MERRILL LYNCH CAPITAL B	★ ★	Growth/income	3080.1	29	4.00**	1.56†	12.5	10.7	2.4
MERRILL LYNCH DEVL. CAPITAL MKT.		Foreign	320.7	159	6.50	1.71	69.0	68.0	0.4

*Not available. **Not available. †Not available. ‡Not available. †Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful.

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA					RISK	TELEPHONE	
RS FUND	5 YEARS PRETAX	10 YEARS PRETAX	10 YEARS AFTERTAX	10 YEARS AFTERTAX		TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	TOLL FREE (800)	IN-STATE
7.8	19.1	16.9				High	25	24	SB	12	Walters Kluwer (Holland)(3)	Low	525-8983
not rated						High	13	26	LG	15	Philips Electronics(3)		525-8983
1.0	-0.2	-2.8	14.3	10.0		High	2	42	MG	4	Sega Enterprises(4)	Very high	535-2726 MA 617-439-4640
2.6	26.6	26.3				Average	-6	31	SG	22	Hospitality Franchise System(2)	High	237-0132 NY 212-344-2661
2.1	14.0	12.7				Very high	0	20	LB	7	Exxon(3)	Average	621-1048 IL 312-781-1121
7.2	17.8	16.4	13.5	10.2		High	2	25	LG	12	Intel(3)	Average	621-1048 IL 312-781-1121
1.4	9.1	7.2	14.7	12.0		High	11	28	MB	21	Kian Joo Can Factory(2)	High	621-1048 IL 312-781-1121
5.2	15.6	14.0				High	1	26	LG	17	Promus(3)	Average	621-1048 IL 312-781-1121
not rated							7	32	SG	14	Newbridge Networks(4)		621-1048 IL 312-781-1121
5.4	14.1	12.5				Average	11	26	MG	14	AT&T(2)	Low	621-1048 IL 312-781-1121
6.3						Average	7	27	MG	14	Promus(1)		621-1048 IL 312-781-1121
not rated						Average	7	28	MG	13	Motorola(1)		621-1048 IL 312-781-1121
3.0	18.8	16.5	13.2	10.3		Average	6	35	SG	33	Promus(4)	High	621-1048 IL 312-781-1121
2.8	14.8	11.7	11.7	8.1		High	3	32	MG	32	Motorola(4)	High	621-1048 IL 312-781-1121
4.3	14.9	12.5	12.2	9.6		High	18	28	MG	12	Promus(3)	Low	621-1048 IL 312-781-1121
0.3	21.1	19.9	12.8	10.9		High	2	38	SG	18	Synopsys(5)	Very high	343-2898 MA 617-338-3400
0.3	20.0	15.6	16.4	12.8		Very high	12	25	MG	21	General Electric(4)	High	343-2898 MA 617-338-3400
0.2	10.8	8.5	11.2	7.9		Average	5	21	LB	12	Chrysler(3)	Low	343-2898 MA 617-338-3400
7.4	14.9	12.2	12.7	9.6		Average	2	25	MG	25	EMC(4)	Average	343-2898 MA 617-338-3400
0.2	11.6	9.2	10.7	8.0		High	6	23	LB	13	American International Grp.(3)	Average	343-2898 MA 617-338-3400
5.2	13.1	10.8	10.6	7.7		Average	2	26	MG	24	Telecommunications Cl A(2)	High	343-2898 MA 617-338-3400
2.6	22.6	20.3	12.1	9.4		Average	1	32	SG	37	Intl. Game Technology(4)	Very high	343-2898 MA 617-338-3400
4.6	3.9	3.0	11.4	9.5		Average	14	31	LB	22	Sega Enterprises(4)	High	343-2898 MA 617-338-3400
3.4	11.6	11.4	6.6	5.4		Average	4	44	SG	24	Franco-Nevada Mng. (Can.)(13)	Very high	343-2898 MA 617-338-3400
not rated							0	22	LB	9	General Electric(3)		854-2505 NY 212-656-1737
1.2	13.7	12.2				Average	5	27	LG	15	Home Depot(4)	Low	854-2505 NY 212-656-1737
not rated						Average	3	25	LB	21	Grupo Financiero Bancomer(3)		854-2505 NY 212-656-1737
1.6	10.0	8.8				High	8	24	LG	3	General Electric(2)	Low	223-4447 MA 617-423-1679
5.2	11.1	10.9				Average	9	26	LG	9	Home Depot(3)	Average	223-4447 MA 617-423-1679
1.4	16.7	15.0				Average	2	19	LB	3	General Electric(3)	Low	235-4331
1.0	21.5	20.0				Very low	3	20	SB	27	WPP Group(4)	Average	822-5544 MD 410-539-0000
3	12.1	11.0				Average	5	15	LV	13	Bear Stearns(3)	Average	822-5544 MD 410-539-0000
1.1	10.8	9.7	12.2	10.6		Low	2	16	LV	33	Fannie Mae(8)	Average	822-5544 MD 410-539-0000
1.9	14.3	10.2	15.3	10.6			1	21	LV	50	General Electric(9)	Low	526-0056 NJ 201-845-7300
1.5	8.9	7.5				Average	0	29	MV	15	SIP(2)	High	526-0056 NJ 201-845-7300
5	6.5	6.3	6.8	6.3		Low	4	36	MG	7	American Barrick Res.(7)	Very high	526-0056 NJ 201-845-7300
1	12.7	9.6	11.3	7.3		High	0	23	LB	10	Avon Products(3)	Average	526-0056 NJ 201-845-7300
1	1.5	1.1	-7.6	-9.2		Very low	4	21	SB	-122	Western Areas Gold Mng.(9)	Very high	526-0056 NJ 201-845-7300
3	18.2	15.8	13.2	10.1		High	2	26	MG	22	Taiwan Fund(3)	Average	526-0056 NJ 201-845-7300
not rated						Low	4	18	LV	7	Empresa Nacional Electricid(2)		872-5426 MA 617-722-6000
4	14.8	12.4				Low	3	15	MV	12	Hong Kong Telecomm.(3)	Very low	245-5051 PA 412-288-1900
3	12.4	10.3	13.7	10.1		Low	4	19	SV	21	VLSI Technology(3)	Low	
1	13.1	10.2	13.7	9.9		Low	7	23	MV	6	Unisys Conv. Pfd.(2)	Very low	MO 314-727-5305
5	12.8	11.4	5.5	4.2		Low	8	28	SG	51	Applied Materials(6)	High	874-3733 NY 212-848-1800
9	13.6	11.5	12.5	9.6		Average	11	20	MV	33	Loral(4)	Average	874-3733 NY 212-848-1800
4	22.8	20.8				Average	13	27	MG	20	Newbridge Networks(2)	High	522-4202
7	13.6	12.0				Very high	13	26	MG	12	Newbridge Networks(1)	Low	522-4202
6	16.9	14.7				Average	7	18	MV	7	Goodyear Tire & Rubber(2)	Low	522-4202
2	18.2	15.0				Average	10	24	SB	18	National Education(2)	High	835-3879 CT 203-857-5321
6	13.7	10.9				Average	8	20	LB	5	General Electric(2)	Average	634-2536 CO 305-421-8878
not rated							5	24	LB	5	Shaw Industries(4)		236-8560 PA 414-287-8500
6	18.4	15.1	13.1	9.3		Low	7	32	MG	34	CUC International(8)	High	225-2606 MA 617-954-5000
9	15.5	11.0	13.8	9.6		Average	2	18	LV	24	General Electric(3)	Low	225-2606 MA 617-954-5000
5	7.0	4.6	11.1	6.9		Very high	72	38	MB	1	LAC Minerals(8)	Very low	962-3863 IL 708-295-7400
0	15.9	14.2				Average	7	26	SG	32	Heilig-Meyers(2)	High	825-5353 VA 804-649-2311
8	20.7	18.7				Average	25	29	SG	13	Vivra(3)	High	446-6662 CA 415-461-6237
5	10.8	8.5				Average	3	22	LB	16	Intel(4)	Low	637-3863 NJ 609-282-2800
8	11.9	9.9	14.1	11.2		Low	20	24	LV	20	ITT(4)	Average	637-3863 NJ 609-282-2800
3	12.0	9.9				Average	5	22	MV	9	United Technologies(2)	Low	637-3863 NJ 609-282-2800
6						High	9	21		34	Bangkok Bank(2)		637-3863 NJ 609-282-2800

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			RAI
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	
MERRILL LYNCH DRAGON B		Pacific	988.9	271	6.00***†	2.34†	85.8	85.4	0.0	
MERRILL LYNCH EUROFUND B		Europe	899.8	97	4.00**	2.16†	30.6	30.6	0.0	
MERRILL LYNCH FD. FOR TOMORROW B		Growth	393.1	-13	4.00**	1.92†	10.3	6.5	0.4	1
MERRILL LYNCH GLOB. ALLOC. B		Asset allocation	4874.2	336	4.00**	1.93†	19.7	18.1	2.8	
MERRILL LYNCH GLOBAL A (aa)		World	283.3	68	6.50	1.49†	24.1	22.1	0.1	
MERRILL LYNCH GLOBAL RESOURCES B		Natural resources	201.9	-6	4.00**	1.99†	17.8	17.7	0.3	
MERRILL LYNCH GLOBAL UTILITY B		Utilities	632.7	203	4.00**	1.61†	23.2	22.2	2.4	
MERRILL LYNCH GROWTH B		Growth	1085.5	39	4.00**	1.87†	31.1	27.0	0.0	
MERRILL LYNCH LATIN AMERICA B		Foreign	426.9	220	6.00***	2.63†	63.0	62.9	0.3	
MERRILL LYNCH PACIFIC B		Pacific	507.3	207	4.00**	1.93†	33.0	33.0	0.0	
MERRILL LYNCH PHOENIX B		Growth	273.0	125	4.00**	2.27†	28.2	24.5	0.4	
MERRILL LYNCH SPECIAL VALUE B		Small company	86.4	100	4.00**	2.19†	13.1	10.6	0.0	
MERRILL LYNCH STRAT. DIV. B		Equity-income	210.3	-6	4.00**	1.91†	7.5	5.3	2.3	
MERRILL LYNCH TECHNOLOGY B		Technology	141.1	240	4.00**	2.55†	20.9	12.4	0.0	
METLIFE-STATE ST. CAPITAL APPR. A		Maximum growth	233.4	41	4.50	1.50†	22.9	18.8	0.0	
METLIFE-STATE ST. MANAGED A	▲ ▲	Asset allocation	140.0	73	4.50	1.25†	21.9	18.6	2.2	
MFS CAPITAL GROWTH B (bb)	AVG	Growth	456.1	3	5.00**	2.14†	4.4	2.1	0.0	1
MFS EMERGING GROWTH B	AVG	Small company	678.1	76	4.00***†	2.21†	24.0	23.1	0.0	
MFS GROWTH OPPORTUNITIES A (cc)		Growth	709.8	2	5.75	0.83†	16.2	12.6	0.7	
MFS MANAGED SECTORS B		Growth	236.9	-8	5.00**	2.21†	3.7	-1.4	0.0	1
MFS RESEARCH A	▲	Growth	297.0	16	5.75	0.90†	21.7	17.9	0.3	
MFS TOTAL RETURN A (dd)	▲ ▲	Balanced	1735.2	37	4.75	0.84†	15.1	13.2	4.2	
MFS VALUE A (ee)	AVG	Growth	138.5	20	5.75	1.37†	25.3	20.3	0.2	
MFS WORLDWIDE EQUITY B (ff)	AVG	World	157.0	51	5.00**	2.09†	29.1	27.6	0.1	
MONETTA	AVG	Small company	524.3	28	No load†	1.45	0.5	-0.4	0.0	
MONTGOMERY EMERGING MARKETS		Foreign	610.2	529	No load	1.90	58.7	57.9	0.1	
MONTGOMERY SMALL CAP		Small company	259.7	25	No load†	1.40	24.3	21.4	2.2	
MUTUAL BEACON	▲ ▲	Growth/income	1060.8	99	No load	0.73	22.9	20.5	4.1	
MUTUAL DISCOVERY		Small company	546.8	NM	No load†	1.29	35.8	34.2		
MUTUAL QUALIFIED	▲ ▲	Growth/income	1539.8	23	No load†	0.79	22.7	19.2	3.9	
MUTUAL SHARES	▲ ▲	Growth/income	3527.1	21	No load†	0.75	21.0	17.9	3.7	
NATIONWIDE	AVG	Growth/income	728.1	-2	4.50	0.61	6.8	4.6	2.2	1
NATIONWIDE GROWTH		Growth	429.3	21	4.50	0.65	11.3	10.2	1.6	1
NEUBERGER & BERMAN GENESIS		Small company	124.9	43	No load	1.65	13.9	11.2	0.1	
NEUBERGER & BERMAN GUARDIAN	▲	Growth/income	2000.9	93	No load	0.81	14.5	13.2	1.6	
NEUBERGER & BERMAN MANHATTAN		Growth	522.5	2	No load	1.04	10.0	5.1	0.2	1
NEUBERGER & BERMAN PARTNERS	▲	Growth	1127.7	16	No load	0.84	16.5	13.2	0.5	
NEUBERGER & BERMAN SEL. SECTORS	▲	Growth	591.3	19	No load	0.92	16.3	13.8	1.0	
NEW ECONOMY	▲	Growth	2117.2	81	5.75	0.89†	31.0	28.0	0.6	
NEW PERSPECTIVE	▲	World	5086.0	53	5.75	0.87†	27.0	25.6	1.4	
NEW USA MUTUAL		Growth	275.2	-3	5.00	1.51†	9.3	6.2	0.0	1
NEW YORK VENTURE	▲	Growth	937.7	71	4.75	0.89†	16.1	13.9	2.1	
NEWPORT TIGER		Pacific	396.2	301	5.00	1.79	75.2	75.0	0.3	
NICHOLAS	▲	Growth	3179.1	19	No load	0.76	5.9	4.8	1.5	1
NICHOLAS II	AVG	Small company	703.7	-5	No load	0.67	6.4	4.6	1.0	
NICHOLAS LIMITED EDITION	▲	Small company	180.8	-5	No load†	0.90	9.0	6.4	0.4	
NICHOLAS-APPLEGATE GROWTH EQUITY B		Maximum growth	251.8	105	5.00**	2.44†	19.2	15.2	0.0	
NORTH AMERICAN ASSET ALLOCATION (gg)		Asset allocation	102.6	85	4.00	1.99†	10.1	8.8	1.6	
OAKMARK		Growth	1214.1	269	No load	1.32	30.5	29.0	0.9	
OAKMARK INTERNATIONAL		Foreign	1108.4	3498	No load	1.26	53.6	52.9	0.5	
OBERWEIS EMERGING GROWTH		Small company	101.2	89	No load	1.81†	9.7	8.7	0.0	
OLYMPIC EQUITY-INCOME		Equity-income	82.9	28	No load	1.00	15.8	13.8	2.7	
ONE GROUP INTL. EQUITY FIDUCIARY		Foreign	88.8	NM	No load	1.22	29.6	29.2	0.7	
OPPENHEIMER	AVG	Growth	229.0	6	5.75	1.10†	15.3	13.9	0.5	
OPPENHEIMER ASSET ALLOCATION	▲ ▲	Asset allocation	278.2	4	5.75	1.10†	16.3	15.1	3.4	
OPPENHEIMER DISCOVERY	AVG	Small company	622.2	46	5.75	1.34†	17.8	17.0	0.0	
OPPENHEIMER EQUITY-INCOME A	AVG	Equity-income	1860.9	13	5.75	0.79†	14.6	12.4	4.7	
OPPENHEIMER GLOBAL A		World	1661.6	42	5.75	1.18†	42.6	39.1	0.6	
OPPENHEIMER GLOBAL BIO-TECH		Health care	216.9	-3	5.75	1.72†	-0.7	-0.9	0.0	
OPPENHEIMER GLOBAL GROWTH & INCOME		World	112.5	122	5.75	1.74†	39.5	37.8	1.3	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful
 (aa) Formerly Merrill Lynch International A. (bb) Formerly MFS Lifetime Capital Growth Fund. (cc) Formerly MFS Capital Development Fund. (dd) Formerly MFS Total Return. (ee) Formerly MFS Special Fund. (ff) Formerly MFS Worldwide Equity Fund. (gg) Formerly North Amer. Security Asset Alloc. Trust

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA					RISK	TELEPHONE		
5 YEARS	10 YEARS		BW 10-YEAR ANALYSIS	TURNOVER		% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)		TOLL FREE (800)	IN-STATE	
PRETAX	PRETAX	AFTERTAX			PRETAX						AFTERTAX			
not rated							18	30	MG	35	Tanjong(2)		637-3863	NJ 609-282-2800
1.7	11.2	10.8				High	7	18	LV	16	Stet(2)	High	637-3863	NJ 609-282-2800
4	12.4	9.6				Average	4	24	LG	20	American Express(4)	Average	637-3863	NJ 609-282-2800
5						Low	21	22	MV	5	Occidental Petroleum(1)		637-3863	NJ 609-282-2800
1.1	11.2	8.9				Average	9	23	LG	20	AFLAC(2)	Average	637-3863	NJ 609-282-2800
1.9	7.4	6.6				Average	14	29	MB	4	Freeport-McM. Cop/Gold A(5)	Average	637-3863	NJ 609-282-2800
1.8						Low	13	15	MV	12	Philadelphia Electric(4)		637-3863	NJ 609-282-2800
4	18.1	16.5				Low	8	32	SG	24	Applied Materials(11)	High	637-3863	NJ 609-282-2800
not rated						Average	14	21		31	Telefonos De Mexico (ADR)(4)		637-3863	NJ 609-282-2800
1.9	7.4	5.6				Very low	7	31	MB	19	China Light & Power(5)	High	637-3863	NJ 609-282-2800
4	14.0	10.3				Average	10	27	SG	13	ADT(2)	Average	637-3863	NJ 609-282-2800
2	7.4	6.8				Average	15	18	SV	11	Roosevelt Financial Group(4)	High	637-3863	NJ 609-282-2800
6	8.7	7.2				Low	8	19	LV	17	Bristol-Myers Squibb(4)	Low	637-3863	NJ 609-282-2800
not rated							16	34	SG	0	Integrated Device Tech.(5)		637-3863	NJ 609-282-2800
4	21.6	19.3				High	7	30	MG	21	Chrysler(6)	Very high	882-0052	MA 617-348-2000
4	12.5	10.1				Average	7	31	MG	9	Blockbuster Entertainment(1)	Very low	562-0032	MA 617-348-2000
6	13.3	11.7				Average	1	17	LV	13	Gillette(3)	Average	225-2606	MA 617-954-5000
5	26.3	25.8				Average	2	33	SG	31	Oracle Systems(6)	Very high	225-2606	MA 617-954-5000
4	13.5	9.7	9.7	6.5		High	3	21	LB	17	Intel(4)	Average	225-2606	MA 617-954-5000
4	15.7	14.3				Low	4	36	LG	19	Home Depot(6)	High	225-2606	MA 617-954-5000
4	16.3	13.1	13.1	9.6		High	4	26	MG	21	Promus(3)	Average	225-2606	MA 617-954-5000
2	13.1	10.7	13.9	10.6		High	15	20	LV	16	Royal Dutch Petroleum(1)	Very low	225-2606	MA 617-954-5000
5	14.6	10.7	12.4	9.2		High	6	27	SB	15	Hollywood Park(6)	Average	225-2606	MA 617-954-5000
5	11.3	10.6				High	10	21	LB	24	Powergen(4)	Low	225-2606	MA 617-954-5000
6	16.2	14.1				High	9	29	MG	1	Micron Technology(4)	Average	666-3882	IL 708-462-9800
not rated						Low	-2	30		24	Telebras(1)		572-3863	CA 415-627-2400
7						High	1	33	SG	23	LDDS Comm. CI A(5)		572-3863	CA 415-627-2400
2	13.9	11.5	14.5	12.5		Average	18	20	SV	16	Sunbeam-Oster(4)	Low	553-3014	NJ 201-912-2100
not rated							11	20	SV	12	Litton Industries(4)		553-3014	NJ 201-912-2100
7	13.4	10.3	16.1	12.8		Average	14	20	MV	20	Sunbeam-Oster(7)	Low	553-3014	NJ 201-912-2100
7	13.0	10.1	15.8	12.5		Average	17	20	MV	8	Sunbeam-Oster(7)	Low	553-3014	NJ 201-912-2100
9	13.9	11.5	14.6	11.5		Very low	1	23	LB	31	Schering-Plough(4)	Low	848-0920	OH 614-249-7855
0	11.3	9.5	13.9	11.0		Very low	17	20	LB	23	Grand Metropolitan(5)	Average	848-0920	OH 614-249-7855
9	12.9	12.0				Average	4	18	SV	15	Harleysville Group(2)	High	877-9700	NY 212-476-8800
4	16.2	13.9	15.0	11.6		Low	15	19	LV	21	Fannie Mae(2)	Average	877-9700	NY 212-476-8800
6	15.0	11.9	15.1	12.4		Average	1	23	MB	14	Wells Fargo(5)	High	877-9700	NY 212-476-8800
9	14.3	11.3	14.5	11.1		Average	5	22	MB	14	Comcast Special CI A(4)	Low	877-9700	NY 212-476-8800
9	16.5	13.5	13.5	10.0		Average	5	18	LV	28	American International Grp.(3)	Average	877-9700	NY 212-476-8800
7	18.6	15.8	16.8	14.3		Low	21	23	MG	32	Liberty Media CI A(9)	Average	421-0180	CA 213-486-9200
3	14.8	12.9	15.6	12.9		Low	14	26	LG	29	News (ADR)(3)	Low	421-0180	CA 213-486-9200
not rated							18	33	MG	6	Telefonos De Mexico (ADR)(4)		222-2872	
9	19.0	16.2	17.5	13.8		Low	3	19	LV	28	Intel(4)	Average	279-0279	NM 505-983-4335
1						Low	10	26	MG	36	Hong Kong & China Gas(4)		776-5455	
9	15.0	13.6	14.1	12.1		Low	6	19	MB	31	Mercury General(3)	Average		WI 414-272-6133
2	12.4	11.1	14.8	13.3		Low	7	20	SV	33	Marshall & Ilsley(3)	Average		WI 414-272-6133
5	16.2	14.6				Low	6	19	SV	32	First Financial (WI)(4)	Average		WI 414-272-6133
not rated						High	18	32	MG	14	CUC International(2)		225-1852	
1						Very high	6	21	MB	9	Fisher Scientific Intl.(2)		872-8037	MA 617-266-6004
not rated						Low	5	16	MV	17	Lockheed(5)		476-9625	
not rated						Low	7	19	MV	13	Union Electrica Fenosa(5)		476-9625	
9	23.8	22.3				Average	-2	27	SG	18	IDB Comm. Group(4)	Very high	323-6166	IL 708-897-7100
5	12.5	10.5				Low	3	28	LB	20	General Motors(6)	Average	346-7301	CA 213-623-7833
not rated							7	35	LG	9	Allianz Holding (Reg)(2)		338-4345	
1	13.7	11.6	8.9	6.4		Low	7	21	LB	30	Mattel(2)	Average	525-7048	CO 303-671-3200
1	11.2	9.5				Average	4	19	MB	13	MCI Communications(2)	Very low	525-7048	CO 303-671-3200
5	21.9	20.5				High	4	34	SG	30	Pyxis(2)	High	525-7048	CO 303-671-3200
9	10.9	8.6	12.6	9.3		Average	0	17	LV	13	Chemical Banking(1)	Low	525-7048	CO 303-671-3200
9	15.9	13.9	15.5	13.0		High	5	25	MG	32	Astra CI A Free(2)	High	525-7048	CO 303-671-3200
1	18.7	18.6				Very low	6	34	SG	10	Gentech(5)	Very high	525-7048	CO 303-671-3200
						Average	15	26	MB	18	SIP(1)		525-7048	CO 303-671-3200

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)		
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD
OPPENHEIMER GOLD & SPECIAL MINERALS		Precious metals	190.1	73	5.75	1.38†	61.8	61.6	0.4
OPPENHEIMER MAIN ST. INC. & GROWTH A (hh)	▲ ▲ ▲	Growth/income	164.4	322	5.75	1.46†	35.4	31.8	1.2
OPPENHEIMER SPECIAL A		Growth	741.3	-1	5.75	0.93†	2.7	1.9	0.5
OPPENHEIMER TARGET		Maximum growth	369.0	-8	5.75	1.09†	3.9	3.3	0.5
OPPENHEIMER TIME		Growth	414.3	7	5.75	1.00†	19.6	17.5	0.0
OPPENHEIMER TOTAL RETURN	AVG	Growth/income	1222.7	53	5.75	0.96†	21.2	18.3	2.2
OPPENHEIMER VALUE STOCK A (ii)	AVG	Growth/income	90.4	52	5.75	1.22†	9.0	6.8	1.9
PACIFIC EUROPEAN GROWTH		Foreign	148.1	NM	4.00	1.95†	51.3	51.2	0.0
PACIFIC HORIZON AGGRESSIVE GROWTH	▼ ▼	Maximum growth	172.1	-1	4.50	1.51†	7.3	5.5	0.0
PACIFICA BALANCED		Balanced	113.7	57	4.50	1.05†	19.6	16.0	3.2
PACIFICA EQUITY VALUE		Growth	155.7	52	4.50	1.01†	25.8	21.3	1.6
PAINWEBBER ASSET ALLOCATION A		Asset allocation	212.0	163	4.50	1.19†	15.7	13.1	2.0
PAINWEBBER ATLAS GLOBAL A		World	208.4	58	4.50	1.48†	41.3	40.0	0.3
PAINWEBBER DIVIDEND GROWTH B		Growth/income	403.8	-16	5.00**	1.90†	-3.3	-3.5	0.6
PAINWEBBER EUROPE GROWTH A		Europe	95.5	28	4.50	1.99	32.6	31.2	0.2
PAINWEBBER GROWTH A	AVG	Growth	145.3	22	4.50	1.22†	19.2	17.6	0.0
PARAGON GULF SOUTH GROWTH		Growth	78.9	27	4.50	0.99	7.9	7.3	0.0
PARAGON VALUE EQUITY-INCOME		Growth/income	105.3	23	4.50	0.94	11.0	9.4	2.1
PARAGON VALUE GROWTH		Growth	175.2	25	4.50	0.95	7.5	6.4	1.3
PARNASSUS		Growth	98.7	76	3.50	1.47	17.3	14.3	0.7
PASADENA BALANCED RETURN A	AVG	Balanced	84.7	13	5.50	2.10	2.4	2.0	1.5
PASADENA GROWTH A		Growth	534.0	-15	5.50	1.50	-5.9	-5.9	0.0
PASADENA NIFTY FIFTY A		Growth	134.9	-31	5.50	1.80	-0.5	-0.5	0.0
PAX WORLD	▲	Balanced	464.4	-1	No load	1.00†	-1.1	-2.3	3.7
PBHG GROWTH	AVG	Small company	121.2	3982	No load	2.39	46.6	46.1	0.0
PENN SQUARE MUTUAL	AVG	Growth/income	252.0	8	4.75	0.99†	12.9	10.3	1.6
PENNSYLVANIA MUTUAL	▲	Small company	1022.2	-7	1.00*†	0.97	11.3	9.1	1.3
PEOPLES INDEX		Growth/income	276.2	184	1.00*	0.65	9.5	7.7	1.9
PERMANENT PORTFOLIO	▲	Asset allocation	83.4	27	No load	1.18†	15.5	15.0	1.4
PHILADELPHIA	AVG	Growth/income	94.7	8	No load	1.81†	17.6	14.3	1.7
PHOENIX BALANCED	▲ ▲ ▲	Balanced	3089.5	32	4.75	1.04†	6.4	4.8	2.9
PHOENIX CAPITAL APPRECIATION		Growth	448.6	80	4.75	1.40†	10.1	9.2	0.6
PHOENIX EQUITY OPPORTUNITIES (ij)	AVG	Growth	206.0	-6	4.75	1.35†	13.3	4.6	0.4
PHOENIX GROWTH	▲	Growth	2491.3	4	4.75	1.20†	4.3	3.2	1.5
PHOENIX INCOME & GROWTH A (kk)	▲ ▲ ▲	Balanced	568.2	31	4.75	1.33†	14.5	11.5	4.2
PHOENIX INTERNATIONAL		Foreign	107.0	311	4.75	2.02†	37.6	37.6	0.0
PHOENIX STOCK		Maximum growth	147.7	12	4.75	1.28†	11.6	8.7	1.8
PHOENIX TOTAL RETURN	▲ ▲ ▲	Asset allocation	370.4	539	4.75	1.32†	10.5	8.7	0.7
PHOENIX WORLDWIDE OPPORTUNITIES (ll)		World	109.8	18	4.75	1.88†	37.8	37.8	0.0
PIERPONT CAPITAL APPRECIATION		Small company	232.9	58	No load	0.90	8.6	3.7	2.9
PIERPONT EQUITY	▲ ▲	Growth/income	244.3	NM	No load	0.90	11.0	8.6	3.1
PIERPONT INTERNATIONAL EQUITY		Foreign	157.9	NM	No load	1.39	26.2	24.7	2.8
PILGRIM MAGNACAP		Growth/income	199.2	-2	5.00	1.53†	10.8	7.4	1.5
PIONEER	AVG	Growth/income	2042.0	14	5.75	0.96†	14.2	12.5	2.0
PIONEER CAPITAL GROWTH		Growth	203.6	112	5.75	1.29†	16.7	13.4	0.0
PIONEER EQUITY-INCOME		Equity-income	150.0	188	5.75	1.38†	12.9	11.4	3.1
PIONEER GROWTH (mm)		Growth	134.7	11	5.75	1.15†	8.5	6.7	0.0
PIONEER II		Growth/income	4582.9	11	5.75	0.95†	18.9	14.8	1.8
PIONEER INCOME (nn)	▲ ▲	Income	296.8	19	4.50	0.99†	10.2	7.4	6.1
PIONEER THREE	AVG	Small company	1068.0	22	5.75	0.84†	16.2	13.6	1.2
PIPER JAFFRAY EMERGING GROWTH		Small company	207.3	52	4.00	1.29†	18.5	18.5	0.0
PIPER JAFFRAY GROWTH & INCOME		Growth/income	91.5	-5	4.00	1.32†	6.1	5.2	2.3
PIPER JAFFRAY SECTOR PERFORMANCE	AVG	Maximum growth	86.9	711	4.00	1.28†	11.0	10.9	0.2
PIPER JAFFRAY VALUE	AVG	Growth	245.8	11	4.00	1.26†	5.1	4.9	0.6
PORTICO BALANCED		Balanced	87.0	69	No load	0.75	8.2	7.6	2.0
PORTICO EQUITY INDEX		Growth/income	76.5	-11	No load	0.50	9.1	8.3	2.3
PORTICO GROWTH & INCOME (oo)		Equity-income	165.3	18	No load	0.85	6.5	5.1	2.1
PORTICO MIDCORE GROWTH		Growth	96.1	178	No load	0.89	10.0	9.8	0.5
PORTICO SPECIAL GROWTH		Growth	356.2	50	No load	0.85	8.0	7.9	0.2
PRA REAL ESTATE SECURITIES		Specialty	110.0	NM	No load	1.24	19.9	16.2	4.0

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful.

(hh) Formerly Main Street Income & Growth. (ij) Formerly Oppenheimer Value Stock. (ll) Formerly National Income & Growth A. (ll) Formerly National Worldwide Opportunities. (mm) Formerly Mutual of Omaha Growth. (nn) Formerly Mutual of Omaha Income. (oo) Formerly Portico Income and Growth Fund.

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA							RISK	TELEPHONE	
5 YEARS PRETAX	5 YEARS AFTERTAX	10 YEARS PRETAX	10 YEARS AFTERTAX	BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P-E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)		TOLL FREE (800)	IN-STATE		
3.0	7.5	6.5	9.8	8.1		Low	4	45	MG	16	Franco-Nevada Mining(4)	Very high	525-7048	CO 303-671-3200	
3.6	28.2	25.1				Very high	16	26	SB	20	Compuware(1)	Average	525-7048		
7.6	14.7	13.5	9.9	7.5		Low	6	18	MB	33	Conseco(2)	Average	525-7048	CO 303-671-3200	
5.4	13.4	12.4	9.0	7.2		Average	5	19	MB	25	Signet Banking(3)	High	525-7048	CO 303-671-3200	
7.4	15.0	12.0	13.6	10.4		Average	8	33	MG	32	Intl. Game Technology(3)	Average	525-7048	CO 303-671-3200	
1.1	16.4	13.5	15.7	12.1		High	1	25	MB	18	SHL Systemhouse(2)	Average	525-7048	CO 303-671-3200	
2.6	12.4	10.7				Very low	9	21	LV	18	General Electric(3)	Low	525-7048	CO 303-671-3200	
1.5						Average	3	35	MB	25	Daiwa(2)		866-7778	MN 612-342-6223	
2.2	21.0	19.2				Average	2	33	MG	26	Intl. Game Technology(5)	Very high	332-3863		
1.4						Average	8	20	MV	10	General Motors(2)		662-8417	NY 212-309-8400	
1.5						Average	8	20	MV	14	General Motors(4)		662-8417	NY 212-309-8400	
not rated						Low	2	24	LB	17	Mirage Resorts(3)		647-1568	NY 201-902-7341	
7.7	9.4	7.6	15.9	13.1		Very high	2	24	MB	22	Skandinaviska Enskilda CI A(3)	Average	647-1568	NY 201-902-7341	
not rated						Average	2	18	LB	9	Fannie Mae(3)		647-1568	NY 201-902-7341	
1.6						Average	13	24	MB	-1	Svenska Handelsbanken CI A(5)		647-1568	NY 201-902-7341	
1.1	17.8	16.2				Low	13	29	MG	29	Viking Office Products(2)	Average	647-1568	NY 201-902-7341	
not rated						Average	6	31	SG	29	Home Depot(6)		777-5143		
1.1						Low	7	19	LV	18	Entergy(4)		777-5143		
1.2						Average	6	21	LB	28	Home Depot(4)		777-5143		
1.3	14.7	13.2				Low	2	28	SB	16	Tandem Computers(5)	High	999-3505	CA 415-362-3505	
1.7	14.5	13.7				Very low	2	22	LG	8	Gillette(3)	Low	882-2855	CA 818-351-4276	
1.5	16.5	15.6				Low	1	24	LG	11	Wells Fargo(4)	High	882-2855	CA 818-351-4276	
1.0						Low	2	22	LG	9	Berkshire Hathaway(9)		882-2855	CA 818-351-4276	
2.2	10.6	8.2	10.8	7.8		Low	6	20	LB	-5	Quaker Oats(6)	Very low	767-1729	NH 603-431-8022	
1.9	27.3	22.1				Very high	9	34	SG	17	IDB Communications Grp.(3)	Very high	809-8008		
1.5	13.2	10.5	12.3	8.9		Low	8	21	LB	19	Royal Dutch Petroleum(2)	Low	523-8440	PA 215-670-1031	
1.6	12.0	9.9	12.4	9.6		Low	18	22	SV	25	Farmer Brothers(1)	Low	221-4268	NY 212-355-7311	
1.0						Very low	0	22	LB	5	Exxon(3)		645-6561	NY 718-895-1206	
1.6	5.5	4.7	5.2	4.8		Average	6	29	MG	7	Promus(2)	Very low	531-5142		
1.6	11.8	9.6	10.3	6.8		Average	9	23	MB	23	Comcast Special CI A(6)	Low	749-9933	FL 407-395-2155	
1.5	13.9	11.5	14.4	11.1		Very high	28	19	LB	4	General Electric(2)	Very low	243-4361	CT 203-253-1000	
1.2						Very high	16	22	LB	11	General Electric(3)		243-4361	CT 203-253-1000	
1.4	14.0	10.3	14.1	9.1		Low	3	22	MB	3	First Union(4)	Average	243-4361	CT 203-253-1000	
1.5	13.5	11.3	14.6	11.9		Very high	36	21	LB	6	American International Grp.(2)	Low	243-4361	CT 203-253-1000	
1.0	14.9	11.8	15.4	11.5		Average	4	21	LB	11	General Motors(2)	Very low	243-4361	CT 203-253-1000	
1.2						Very high	7	27	MB	12	Schweizer Bankverein(2)		243-4361	CT 203-253-1000	
1.7	12.3	10.1	12.8	9.8		Very high	25	21	LG	7	General Electric(3)	Average	243-4361	CT 203-253-1000	
1.0	14.2	11.2				Very high	48	23	LB	4	State Street Boston(2)	Very low	243-4361	CT 203-253-1000	
1.9	8.3	7.9	7.0	5.4		High	9	27	MB	19	Citicorp(3)	High	243-4361	CT 203-253-1000	
1.3	15.0	13.8				Average	5	25	SB	6	Charter One Financial(2)	Very high	521-5412		
1.8	16.5	14.3				Average	5	24	LB	9	General Motors(2)	Low	521-5412		
1.0						Low	8	33	LV	6	Tokai Bank(2)		521-5412		
1.8	12.2	10.2	14.2	11.9		Low	0	24	LB	30	Intl. Flavors & Fragrances(7)	Average	334-3444	CA 310-551-0833	
1.2	12.0	9.2	11.8	8.5		Very low	0	23	MB	34	Chrysler(2)	Low	225-6292	MA 617-742-7825	
1.2						Average	1	20	SV	7	Worldtex(2)		225-6292	MA 617-742-7825	
1.2						Low	0	19	MV	7	Phelps Dodge(4)		225-6292	MA 617-742-7825	
1.5	16.9	15.2	14.1	12.3		Low	12	31	SG	31	Amtech(8)	Very high	225-6292	MA 617-742-7825	
1.9	11.9	9.0	11.8	8.8		Average	4	19	MV	20	AMBAC(2)	Average	225-6292	MA 617-742-7825	
1.5	11.1	8.5	11.9	8.3		Average	13	21	LV	7	Allegheny Power System(2)	Very low	225-6292	MA 617-742-7825	
1.1	14.8	12.4	13.2	10.7		Low	2	21	SV	29	Allmerica Prop./Casualty(2)	Average	225-6292	MA 617-742-7825	
1.0						Low	3	30	MG	30	Cisco Systems(2)		866-7778	MN 612-342-6223	
not rated						Low	0	23	LB	5	General Electric(4)		866-7778	MN 612-342-6223	
1.3	17.2	16.8				High	21	24	MB	6	Medtronic(2)	High	866-7778	MN 612-342-6223	
1.3	17.6	17.0				Average	6	21	LB	21	Intel(4)	Average	866-7778	MN 612-342-6223	
not rated							14	24	MB	10	Magma Power(1)		228-1024	WI 414-287-3808	
1.1						Very low	1	21	LB	23	General Electric(3)		228-1024	WI 414-287-3808	
1.9						Low	6	20	LB	9	AMP(3)		228-1024	WI 414-287-3808	
not rated							12	28	MG	8	Great Lakes Chemical(3)		228-1024	WI 414-287-3808	
1.3						Low	15	23	SB	20	Sysco(3)		228-1024	WI 414-287-3808	
1.1						Average	4	34	SB	0	Post Properties(6)		435-1405		

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			RAI
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD	
PREFERRED GROWTH		Growth	144.7	42	No load	1.00	16.1	16.1	0.0	
PREFERRED VALUE		Growth/income	122.9	10	No load	0.96	8.8	8.1	1.4	
T. ROWE PRICE BALANCED	▲ ▲ ▲	Balanced	340.8	36	No load	1.00	13.3	12.0	3.2	
T. ROWE PRICE CAPITAL APPRECIATION	▲ ▲	Growth	535.7	49	No load	1.09	15.7	14.4	1.4	
T. ROWE PRICE EQUITY INDEX		Growth/income	161.8	26	No load	0.45	9.4	8.6	2.4	
T. ROWE PRICE EQUITY-INCOME	▲	Equity-income	2848.5	36	No load	0.95	14.8	12.4	3.1	
T. ROWE PRICE EUROPEAN STOCK		Europe	289.5	67	No load	1.35	27.2	27.1	0.3	
T. ROWE PRICE GROWTH & INCOME	AVG	Growth/income	1170.5	39	No load	0.83	13.0	11.1	2.8	
T. ROWE PRICE GROWTH STOCK	AVG	Growth	2050.6	5	No load	0.85	15.6	13.8	0.7	
T. ROWE PRICE INTL. DISCOV.	▲ ▲	Foreign	391.9	136	No load	1.50	49.8	49.6	0.4	
T. ROWE PRICE INTL. STOCK	▲	Foreign	4290.0	120	No load	1.01	40.1	39.2	0.7	
T. ROWE PRICE NEW AMERICA GROWTH	AVG	Growth	618.6	29	No load	1.25	17.4	16.2	0.0	
T. ROWE PRICE NEW ASIA		Pacific	2234.4	610	No load	1.29	78.8	77.7	0.3	
T. ROWE PRICE NEW ERA	▲	Natural resources	752.6	8	No load	0.82	15.3	13.2	1.8	
T. ROWE PRICE NEW HORIZONS	▲	Small company	1640.4	6	No load	0.97	22.0	17.1	0.0	
T. ROWE PRICE OTC SECURITIES	▲	Small company	204.6	10	No load	1.29	18.4	15.3	0.0	
T. ROWE PRICE SCIENCE/TECH.	AVG	Technology	500.3	78	No load	1.25	24.2	20.2	0.0	
T. ROWE PRICE SMALL-CAP VALUE	▲ ▲	Small company	453.8	72	No load†	1.20	23.3	22.3	0.7	
T. ROWE PRICE SPECTRUM GROWTH		Growth	582.0	64	No load	0.00	21.0	18.6	1.3	
T. ROWE PRICE SPECTRUM INCOME		Income	583.8	55	No load	0.00	12.4	9.8	6.1	
PRINCOR CAPITAL ACCUMULATION	▲	Growth	253.1	26	5.00	0.84†	7.6	4.8	2.0	1
PRINCOR GROWTH	AVG	Growth	86.0	31	5.00	1.17†	7.5	5.4	1.3	1
PRINCOR WORLD	▲	Foreign	77.7	119	5.00	1.63†	46.3	46.0	0.3	
PRUDENTIAL EQUITY B	▲	Growth	1796.0	49	5.00**	1.68†	21.1	19.2	0.8	
PRUDENTIAL EQUITY-INCOME B	▲	Equity-income	633.2	210	5.00**	2.02†	20.4	18.4	2.2	
PRUDENTIAL FLEXI. CONSERV. B	▲ ▲	Asset allocation	381.7	49	5.00**	1.97†	13.8	11.6	2.3	
PRUDENTIAL FLEXIFUND STRATEGY B	▲ ▲	Asset allocation	371.4	10	5.00**	2.01†	12.2	10.7	1.8	
PRUDENTIAL GLOBAL B	▲	World	307.9	80	5.00**	2.43†	47.9	47.9	0.0	
PRUDENTIAL GLOBAL GENESIS B	▲	World	122.9	304	5.00**	2.29†	59.5	58.8	0.3	
PRUDENTIAL GROWTH B	▲	Growth	208.2	-14	5.00**	2.16†	8.5	4.9	0.0	1
PRUDENTIAL GROWTH OPPORTUNITY B	AVG	Small company	402.2	74	5.00**	1.97†	18.6	16.7	0.0	
PRUDENTIAL MULTI-SECTOR B		Growth	115.0	19	5.00**	2.09†	22.6	18.6	0.7	
PRUDENTIAL PACIFIC GROWTH B		Pacific	347.7	1431	5.00**	1.89†	65.1	64.4	0.2	
PRUDENTIAL UTILITY B	▲ ▲	Utilities	4756.4	38	5.00**	1.57†	15.3	13.3	2.2	
PUTNAM CORPORATE ASSET	▲ ▲ ▲	Income	141.2	0	2.50	0.83	12.0	9.8	6.7	
PUTNAM ENERGY RESOURCES	▲	Natural resources	115.7	13	5.75	1.18†	13.5	6.9	1.0	
PUTNAM EQUITY INCOME A (pp)	▲	Equity-income	329.7	-1	5.75	1.23†	16.5	15.2	3.7	
PUTNAM FUND FOR GROWTH & INC. A	▲	Growth/income	5327.0	41	5.75	0.93†	14.4	12.0	3.7	
PUTNAM GLOBAL GROWTH A	▲	World	1057.3	61	5.75	1.39†	31.8	31.2	0.0	
PUTNAM HEALTH SCIENCES A	▲	Health care	788.4	-19	5.75	1.13†	0.0	-0.4	0.9	
PUTNAM INVESTORS A	AVG	Growth	829.1	13	5.75	0.90†	17.9	13.1	0.5	
PUTNAM MANAGED INCOME	AVG	Income	528.2	-17	5.75	1.02†	12.4	10.3	6.1	
PUTNAM NEW OPPORTUNITIES A		Growth	530.9	124	5.75	1.31†	32.7	32.0	0.0	
PUTNAM OTC EMERGING GROWTH A	▲	Small company	432.4	34	5.75	1.39†	32.0	28.5	0.0	
PUTNAM UTILITIES GROWTH & INC. A		Utilities	661.9	46	5.75	1.12†	14.0	11.5	4.8	
PUTNAM VISTA A	▲	Growth	518.7	41	5.75	0.96†	17.4	14.8	0.9	
PUTNAM VOYAGER A	▲	Maximum growth	2884.4	49	5.75	1.12†	18.4	17.2	0.0	
QUEST FOR VALUE A	AVG	Growth	243.9	45	5.50	1.73†	6.6	5.3	0.3	
QUEST FOR VALUE GLOBAL EQUITY		World	142.8	31	5.50	1.76†	25.4	23.9	0.2	
QUEST FOR VALUE OPPORTUNITY A	▲ ▲	Asset allocation	126.1	129	5.50	1.88†	8.2	7.3	1.8	
QUEST FOR VALUE SMALL CAPITAL A	AVG	Small company	109.7	101	5.50	1.94†	18.2	15.8	0.0	
REICH & TANG EQUITY	AVG	Growth	105.2	14	No load	1.18†	13.8	11.1	1.1	
RIGHTTIME	AVG	Growth/income	166.3	-8	No load	2.54†	8.1	6.7	0.0	
RIGHTTIME BLUE CHIP	AVG	Growth/income	219.7	0	4.75	2.17†	7.3	7.0	0.7	
RIVERSIDE CAPITAL EQUITY		Growth	80.0	130	3.00	0.73†	16.9	16.0	1.1	
ROBERTSON STEPHENS EMERGING GROWTH	▲	Small company	169.7	-39	No load	1.49†	7.2	7.2	0.0	
ROYCE EQUITY-INCOME		Equity-income	84.7	57	1.00*	1.00	13.1	9.7	3.5	
ROYCE VALUE	AVG	Small company	185.8	4	1.00**	1.88†	10.7	8.4	0.5	
RSI RETIREMENT TRUST CORE EQUITY	AVG	Growth/income	147.2	3	No load	0.95	10.3	10.3	0.0	
SAFECO EQUITY	▲	Growth/income	194.0	130	No load	0.94	30.9	28.3	1.3	

*Includes redemption fee **Includes deferred sales charge †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful (pp) Formerly Putnam Strategic Income.

SCOREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA					RISK	TELEPHONE			
5 YEARS		10 YEARS		TURNOVER		% CASH	P/E RATIO	STYLE	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)		TOLL FREE (800)	IN-STATE		
RTAX	PRETAX	AFTERTAX	PRETAX											AFTERTAX	
not rated							1	30	MG	24	Hewlett-Packard(4)		662-4769		
not rated							10	18	LB	12	Primerica(3)		662-4769		
4	13.9	11.4		13.4	9.4		Average	3	23	LB	12	General Electric(1)	Very low	638-5660	MD 410-547-2308
4	13.0	10.2					Average	24	26	MB	11	Monsanto(2)	Very low	638-5660	MD 410-547-2308
9							Very low	6	22	LB	11	AT&T(3)		638-5660	MD 410-547-2308
9	11.7	9.5					Average	12	22	LV	11	Exxon(2)	Low	638-5660	MD 410-547-2308
5							Low	10	23	LB	9	Elsevier(3)		638-5660	MD 410-547-2308
0	12.7	10.6		11.1	8.1		Low	14	20	LV	17	General Electric(2)	Average	638-5660	MD 410-547-2308
1	14.5	12.2		13.4	10.5		Low	4	23	LB	32	FHLMC(5)	Average	638-5660	MD 410-547-2308
7	13.4	12.9					Average	9	24	SB	17	YTL(1)	High	638-5660	MD 410-547-2308
8	12.0	10.3		17.4	14.1		Low	7	29	LB	19	United Engineers (Malaysia)(2)	High	638-5660	MD 410-547-2308
9	20.5	19.7					Low	4	29	MG	28	Medco Containment Services(3)	High	638-5660	MD 410-547-2308
4							Average	9	30	MG	28	Technology Resources(3)		638-5660	MD 410-547-2308
5	8.9	6.7		11.4	8.5		Low	8	31	LG	27	Wal-Mart Stores(7)	Average	638-5660	MD 410-547-2308
9	18.6	15.7		10.8	7.7		Average	1	31	SG	35	Medco Containment Services(5)	High	638-5660	MD 410-547-2308
7	12.1	9.3		10.5	7.4		Average	5	21	SV	31	Selective Insurance Group(2)	High	638-5660	MD 410-547-2308
6	26.8	24.1					Very high	4	34	MG	17	Novell(4)	Very high	638-5660	MD 410-547-2308
9	15.9	14.2					Very low	7	20	SV	21	La Quinta Motor Inns(2)	Low	638-5660	MD 410-547-2308
9							Very low	0	25	LB	11	T. Rowe Price New Horizons(20)		638-5660	MD 410-547-2308
5							Low	11	33		3	T. Rowe Price New Income(25)		638-5660	MD 410-547-2308
8	10.5	8.3		12.5	9.4		Low	3	21	LV	9	Minnesota Mining & Mfg(3)	Average	451-5447	IA 515-247-6833
3	16.6	15.1		13.1	10.8		Very low	8	23	MB	32	United Healthcare(4)	Average	451-5447	IA 515-247-6833
5	12.0	11.3		12.3	9.4		Average	6	21	MV	26	Svenska Handelsbanken Free(3)	Average	451-5447	IA 515-247-6833
5	15.9	13.7		14.5	12.4		Low	18	26	MV	17	Digital Equipment(3)	Average	225-1852	
3	13.2	11.6					Average	17	19	MV	11	British Petroleum (ADR)(3)	Low	225-1852	
4	11.8	9.6					High	10	23	MB	8	Time Warner(1)	Very low	225-1852	
1	11.9	9.8					High	9	23	LB	13	Emerson Electric(2)	Low	225-1852	
3	8.0	7.8					Average	1	25	MG	25	Resorts World(2)	High	225-1852	
5	14.6	14.0					Average	5	27	SG	22	Liu Chong Hing Investment(2)	Average	225-1852	
4	8.9	7.2		10.6	8.8		High	3	22	MB	14	Northern Trust(3)	Average	225-1852	
	15.6	14.1		11.5	9.6		High	7	21	SV	16	Marshall Industries(3)	Average	225-1852	
							High	10	27	MB	13	FHP International(3)		225-1852	
not rated								5	30	MG	16	Capcom(3)		225-1852	
4	13.9	11.4		18.1	14.5		Low	14	16	MV	16	Sprint(3)	Low	225-1852	
	10.7	7.7					Very high	3	15	MV	-104	Philip Morris(1)	Very low	225-1581	MA 617-292-1000
	10.7	7.9		8.8	6.7		Very high	3	25	MB	-9	Noble Affiliates(5)	High	225-1581	MA 617-292-1000
	10.3	7.2		10.2	6.0		Very high	2	19	LV	-38	British Petroleum (ADR)(2)	Average	225-1581	MA 617-292-1000
	13.5	10.5		14.5	10.3		Average	7	22	LB	8	ITT(2)	Low	225-1581	MA 617-292-1000
	12.0	10.8		16.8	14.4		Average	6	24	MB	21	Societe Generale(1)	Average	225-1581	MA 617-292-1000
	16.9	14.8		15.0	12.4		Average	12	23	LG	13	Abbott Laboratories(6)	High	225-1581	MA 617-292-1000
	16.3	12.5		13.6	8.8		High	9	24	LB	15	Chevron(2)	Average	225-1581	MA 617-292-1000
	12.3	8.7					Very high	0	19	MV	-8	DuPont(1)	Low	225-1581	MA 617-292-1000
							High	4	39	SG	29	Liberty Media CI A(3)		225-1581	MA 617-292-1000
	19.5	17.3		17.3	15.6		Average	1	39	SG	36	Liberty Media CI A(4)	Very high	225-1581	MA 617-292-1000
							High	5	17	LV	4	GTE(2)		225-1581	MA 617-292-1000
	17.3	13.7		13.9	10.2		High	11	25	MG	15	Harcourt General(2)	Average	225-1581	MA 617-292-1000
	20.7	18.3		17.3	14.7		Average	4	31	MG	28	Liberty Media CI A(4)	High	225-1581	MA 617-292-1000
	13.3	11.6		12.6	10.4		Average	17	18	MB	16	Exel (ADR)(3)	Average	232-3863	NY 212-667-7587
							Low	8	27	MB	18	Honeywell(4)		232-3863	NY 212-667-7587
	16.3	15.2					Low	12	14	MV	8	FHLMC(6)	Low	232-3863	NY 212-667-7587
	15.5	14.2					High	12	22	SV	9	Rexnord(4)	Average	232-3863	NY 212-667-7587
	12.7	10.2					Low	4	22	MV	3	Becton Dickinson(4)	Average	221-3079	NY 212-476-5050
	10.5	8.5					Average	0	23	LB	13	Twentieth Century Growth(6)	Low	242-1421	PA 215-887-8111
	10.8	9.3					Very low	0	22	LB	20	General Electric(2)	Low	242-1421	PA 215-887-8111
not rated							Low	5	25	SV	12	Amdahl(5)		874-8376	
	21.3	19.3					High	3	42	SG	27	Quantum(3)	Very high	766-3863	CA 415-781-9700
							Average	16	22	SV	3	Armstrong World Industries(1)		221-4268	NY 212-355-7311
	11.0	8.9		11.0	8.8		Low	18	22	SV	23	Farmer Brothers(1)	Low	221-4268	NY 212-355-7311
	13.0	12.9		14.3	14.3		Low	4	20	LB	11	GTE(7)	Low	772-3615	
	17.8	15.3		15.4	11.8		Average	3	22	SG	18	Callaway Golf(12)	Average	426-6730	WA 206-545-5530

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)		
			ASSETS \$ MIL	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD
SAFECO GROWTH		Small company	163.6	-5	No load	0.91	22.2	21.0	0.0
SAFECO INCOME	AVG	Equity-income	200.9	8	No load	0.90	12.6	11.1	4.4
SALOMON BROTHERS CAPITAL		Growth	113.8	10	No load	1.34	17.0	13.9	0.2
SALOMON BROTHERS INVESTORS	AVG	Growth/income	386.4	4	No load	0.71	15.2	10.1	1.8
SALOMON BROTHERS OPPORTUNITY		Growth	116.4	9	No load	1.23	12.8	10.5	2.0
SBSF		Growth/income	120.8	9	No load	1.16	20.4	15.8	1.7
SCHWAB 1000		Growth/income	529.1	43	0.50*	0.45	9.6	9.0	2.0
SCUDDER CAPITAL GROWTH		Growth	1427.9	15	No load	0.96	20.1	16.4	0.0
SCUDDER DEVELOPMENT		Small company	765.8	-17	No load	1.30	9.0	6.4	0.0
SCUDDER GLOBAL		World	963.0	140	No load	1.48	31.1	30.3	0.9
SCUDDER GLOBAL SMALL COMPANY		World	219.8	278	No load	1.50	38.2	37.4	1.0
SCUDDER GOLD		Precious metals	110.0	251	No load	2.17	59.4	58.5	1.8
SCUDDER GROWTH & INCOME		Growth/income	1631.3	40	No load	0.88	15.6	12.9	2.5
SCUDDER INTERNATIONAL		Foreign	2069.0	97	No load	1.23	36.5	35.8	0.9
SCUDDER LATIN AMERICA		Foreign	409.1	9751	2.00*	2.00	74.3	74.1	0.3
SCUDDER PACIFIC OPPORTUNITIES		Pacific	453.7	NM	No load	1.75	60.1	59.8	0.4
SCUDDER QUALITY GROWTH		Growth	123.9	-5	No load	1.20	0.0	-0.6	0.5
SECURITY EQUITY	AVG	Growth	368.5	7	5.75	1.06	14.5	8.3	1.8
SECURITY GROWTH & INCOME (qq)	AVG	Growth/income	77.6	0	5.75	1.26	8.2	6.6	2.8
SELECTED AMERICAN SHARES		Growth/income	451.9	-22	No load	1.09†	5.5	-0.5	1.5
SELIGMAN CAPITAL A	AVG	Maximum growth	196.2	-1	4.75	1.14†	5.0	1.9	0.0
SELIGMAN COMMON STOCK A	AVG	Growth/income	553.2	8	4.75	0.90†	15.0	12.2	2.7
SELIGMAN COMMUNICATIONS & INFO A		Technology	92.8	63	4.75	1.67†	35.7	28.6	0.0
SELIGMAN GROWTH A		Growth	591.5	-4	4.75	0.92†	6.5	1.2	0.2
SELIGMAN INCOME A		Income	321.0	51	4.75	1.06†	16.0	13.2	5.0
SENTINEL BALANCED		Balanced	230.2	83	5.00	1.05†	9.6	8.0	3.6
SENTINEL COMMON STOCK	AVG	Growth/income	904.6	32	5.00	0.86†	9.3	7.8	2.6
SENTRY		Growth	76.6	6	No load	0.88	6.0	3.7	1.3
SEQUOIA		Growth	1512.1	9	No load‡	1.00	10.8	6.7	2.6
SEVEN SEAS MATRIX EQUITY (rr)		Growth	89.3	405	No load	0.60†	15.4	14.6	1.5
SEVEN SEAS S&P 500 INDEX		Growth/income	309.9	1966	No load	0.15†	8.0	7.5	1.4
SIERRA EMERGING GROWTH		Small company	113.2	135	4.50	1.59†	22.3	19.4	0.0
SIERRA GROWTH & INCOME		Growth/income	79.6	-22	4.50	1.46†	11.0	7.1	1.0
SIERRA INTERNATIONAL GROWTH		Foreign	82.6	139	4.50	1.80†	32.3	31.4	0.2
SIFE TRUST		Financial	414.2	20	6.25	0.99	9.3	7.8	2.5
SIT GROWTH (ss)	AVG	Small company	332.3	-1	No load	0.80	8.5	7.8	0.1
SKYLINE SPECIAL EQUITIES		Small company	227.7	35	No load‡	1.51	22.8	17.7	0.0
SMALLCAP WORLD		World	2712.9	83	5.75	1.15†	30.0	28.5	0.2
SMITH BARNEY EQUITY A		Growth	91.0	6	4.50	0.99†	18.5	15.4	1.6
SMITH BARNEY INCOME & GROWTH A	AVG	Growth/income	627.9	10	4.50	0.95†	16.4	13.5	3.3
SMITH BARNEY INTL. EQUITY A		Foreign	354.9	190	4.50	1.35†	52.8	52.5	0.0
SMITH BARNEY SHEAR PREM. TOT. RET. B (tt)		Equity-income	1456.1	87	5.00**	1.69†	11.2	8.7	7.0
SMITH BARNEY SHEAR PRIN. RET. 1998 (uu)		Balanced	117.2	-29	5.00‡	0.98†	9.5	5.1	5.3
SMITH BARNEY SHEAR SECT. ANALYSIS B (vv)		Growth	130.1	-30	5.00**	2.17†	4.5	4.5	0.1
SMITH BARNEY SHEAR STRAT. INVEST. B (ww)		Asset allocation	292.4	4	5.00**	2.02†	14.6	11.5	1.8
SMITH BARNEY SHEAR TELECOMM. GR. B (xx)		Technology	134.6	NM	5.00**	2.24†	34.4	33.9	0.0
SMITH BARNEY SHEAR UTILITIES B (yy)		Utilities	2475.9	15	5.00**	1.56†	11.5	8.8	5.4
SMITH BARNEY SHEARSON AGGR. GR. A (zz)		Maximum growth	188.1	13	5.00	1.35†	21.1	21.1	0.0
SMITH BARNEY SHEARSON APPREC. A (aaa)	AVG	Growth	1511.1	-12	5.00	1.08†	8.1	6.7	1.4
SMITH BARNEY SHEARSON DIR. VAL. B (bbb)		Growth	132.4	-33	5.00**	1.83†	9.4	5.5	0.1
SMITH BARNEY SHEARSON FUND VAL. B (ccc)		Growth	167.1	1917	5.00**	2.28†	18.8	17.9	0.2
SMITH BARNEY SHEARSON SPEC. EQ. B (ddd)		Small company	138.0	77	5.00**	2.33†	31.9	31.3	0.0
SMITH BARNEY UTILITY A		Utilities	113.3	-10	4.50	0.98†	10.4	7.7	6.0
SOCIETY DIVERSIFIED (eee)		Growth	249.3	12	4.00	0.91	10.1	6.4	1.6
SOGEN INTERNATIONAL		Asset allocation	1427.4	169	3.75‡	1.31†	26.2	25.0	2.1
STAGECOACH ASSET ALLOCATION		Asset allocation	1048.7	93	4.50	0.90†	15.0	12.1	3.9
STAGECOACH CORPORATE STOCK	AVG	Growth/income	258.3	12	No load	0.97†	8.9	7.8	1.8
STAGECOACH GROWTH & INCOME		Growth/income	112.2	150	4.50	0.95†	8.0	7.5	1.5
STEINROE CAPITAL OPPORTUNITIES		Maximum growth	166.1	28	No load	1.06	27.5	27.5	0.0
STEINROE PRIME EQUITIES		Growth/income	108.7	41	No load	0.88	12.9	11.0	1.1

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful

(qq) Formerly Security Investment (rr) Formerly Seven Seas Matrix Synthesis (ss) Formerly Sit "New Beginning" Growth (tt) Formerly Shearson Premium Total Return Fund B (uu) Formerly Shearson Principal Return 1998 (vv) Formerly Shearson Sector Analysis Fund B (ww) Formerly Shearson Strategic Investors Fund B (xx) Formerly Shearson Telecommunications Growth B (yy) Formerly Shearson Utilities Fund B (zz) Formerly

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA					RISK	TELEPHONE	
5 YEARS	5 YEARS	10 YEARS	10 YEARS			TURNOVER	% CASH	P/E	STYLE	UNTAILED		TOLL FREE	IN-STATE
PRETAX	AFTERTAX	PRETAX	AFTERTAX		BW 10-YEAR ANALYSIS			RATIO		GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	(800)	
1.9	14.3	11.9	11.3	8.3		Average	5	25	SG	35	Callaway Golf(20)	Very high	426-6730 WA 206-545-5530
1.9	10.5	8.6	12.3	9.4		Low	1	18	LV	13	GTE(4)	Low	426-6730 WA 206-545-5530
1.2	15.8	12.8	10.5	7.7		Average	2	20	MB	24	Southwest Airlines(3)	High	725-6666 NY 212-783-2081
1.9	12.7	9.0	11.9	7.7		Average	1	22	LB	20	Royal Dutch Petroleum(2)	Average	725-6666
1.3	11.3	9.7	13.2	10.7		Very low	7	16	MV	43	Chubb(13)	Average	725-6666 NY 212-783-1301
1.4	14.8	11.6	13.3	10.6		Average	25	24	MB	17	American International Grp.(5)	Low	422-7273 NY 212-903-1200
not rated						Very low	0	22	LB	13	AT&T(2)		526-8600
1.9	15.3	12.5	15.4	12.4		High	1	25	MG	19	Time Warner(6)	High	225-2470 MA 617-439-4640
1.6	18.1	15.9	11.3	9.5		Average	3	29	SG	37	Cabletron Systems(4)	Very high	225-2470 MA 617-439-4640
1.0	15.6	14.2				Average	4	24	LV	19	Pacific Telesis Group(2)	Low	225-2470 MA 617-439-4640
not rated						Low	4	29	SG	15	Technology Resources(2)		225-2470 MA 617-439-4640
1.3	4.5	4.3				Average	3	41	MG	20	Placer Dome (Canada)(3)	Very high	225-2470 MA 617-439-4640
1.5	14.9	12.0				Average	4	21	MB	17	Chemical Banking(3)	Low	225-2470 MA 617-439-4640
1.2	11.4	9.7	16.4	13.7		Low	2	30	LB	22	Technology Resources(1)	High	225-2470 MA 617-439-4640
not rated						Very low	12	32		24	Telefonos De Chile (ADR)(5)		225-2470 MA 617-439-4640
not rated						Very low	16	25	MG	20	Arab-Malaysian(2)		225-2470 MA 617-439-4640
not rated						High	4	22	LG	10	Royal Dutch Petrol. (ADR)(3)		225-2470 MA 617-439-4640
1.7	16.3	12.4	14.3	9.7		High	11	22	MB	14	Fannie Mae(2)	Average	888-2461 KS 913-295-3127
1.3	10.0	6.4	8.8	5.0		High	-1	19	LG	10	Household International(6)	Low	888-2461 KS 913-295-3127
1.0	13.5	9.9	15.2	11.9		Average	2	20	LB	17	MCI Communications(5)	Average	243-1575 NM 505-983-4335
1.3	19.5	16.5	12.3	9.6		Average	8	24	MG	34	Circus Circus Enterprises(9)	High	221-2783 NY 212-850-1864
1.4	15.1	11.5	13.8	9.6		Average	4	23	LB	27	American International Grp.(2)	Average	221-2783 NY 212-850-1864
1.7	23.3	18.4	17.6	14.0		High	1	28	MG	23	EMC(6)	Very high	221-2783 NY 212-850-1864
1.4	15.8	12.3	12.4	8.2		Average	1	29	MG	23	Nucor(3)	High	221-2783 NY 212-850-1864
1.4	13.4	10.4	12.7	9.0		Average	6	18	LV	9	GTE(1)	Very low	221-2783 NY 212-850-1864
1.9	11.8	9.6	12.9	10.2		Average	9	21	LB	12	JC Penney(1)	Very low	282-3863 VT 802-229-3900
1.0	13.4	11.2	14.4	11.6		Very low	6	24	LB	43	General Electric(3)	Low	282-3863 VT 802-229-3900
1.4	13.9	11.4	12.6	9.9		Low	30	20	MB	31	McDonald's(6)	Low	533-7827
1.5	15.9	13.3	15.6	12.3		Low	34	15	LV	30	Berkshire Hathaway(23)	Low	NY 212-245-4500
not rated						High	2	19	MB	8	Procter & Gamble(3)		MA 617-654-6089
not rated						Very low	2	22	LB		Exxon(3)		MA 617-654-6089
1.0						Low	2	28	SG	12	Oxford Health Plans(2)		222-5852
1.7						Average	0	19	LB	7	Royal Dutch Petroleum(3)		222-5852
1.3						Average	9	31	LV	13	Sakura Bank(1)		222-5852
1.1	15.1	12.8	14.3	11.7		Low	2	14	MV	32	National Commerce Bancorp(5)	High	524-7433 CA 510-937-3964
1.3	18.4	17.3	15.3	13.6		Average	2	27	MG	26	Mercury General(2)	High	332-5580 MN 612-334-5888
1.5	23.7	20.3				High	5	17	SV	14	American Income Holding(2)	Average	458-5222 IL 312-670-6035
1.5						Low	13	29	SG	24	Liberty Media Cl A(3)		421-0180 CA 213-486-9200
1.7	13.9	11.0	12.5	8.9		High	11	22	LB	22	Federated Dept. Stores(3)	Average	544-7835 NY 212-698-5349
1.9	12.1	9.5	13.1	9.7		Average	4	17	LV	15	Royal Dutch Petroleum(4)	Low	544-7835 NY 212-698-5349
1.8	19.7	18.8				Low	5	33	MG	26	Newbridge Networks (Can.)(3)	Average	544-7835 NY 212-698-5349
1.5	14.1	11.2				Average	17	19	LV	10	Fannie Mae(4)	Low	451-2010 NY 212-720-9218
not rated						Very low	54	23	LB	14	AT&T(2)		451-2010 NY 212-720-9218
1.7	10.9	10.3				High	5	25	LB	3	General Electric(3)	Average	451-2010 NY 212-720-9218
1.4	13.3	10.4				High	10	23	LV	8	Sears Roebuck(2)	Low	451-2010 NY 212-720-9218
not rated							14	32	MG	9	McCaw Cellular Comm. Cl A(3)		NY 617-573-9410
1.9	12.6	10.0				Average	5	15	LV	9	NYNEX(3)	Very low	451-2010 NY 212-720-9218
1.3	18.5	17.0	14.5	13.0		Low	3	36	MG	43	Intel(7)	Very high	451-2010 NY 212-720-9218
1.4	13.5	12.2	14.1	12.7		Low	6	23	LB	22	Minnesota Mining & Mfg(2)	Low	451-2010 NY 212-720-9218
1.5	10.8	7.7				Average	-8	20	MV	21	MAPCO(5)	Average	451-2010 NY 212-720-9218
not rated							36	23	LB	8	Trinet Corporate Realty(4)		451-2010 NY 212-720-9218
1.5	13.2	12.4	9.3	8.2		Very high	13	36	SG	19	Callaway Golf(14)	Very high	451-2010 NY 212-720-9218
1.2						Low	1	16	MV	10	Public Service Enterprise(3)		544-7835 NY 212-698-5349
1.1						Average	0	26	LB	12	General Electric(3)		362-5365
1.5	13.3	11.2	15.3	11.8		Low	30	24	SB	6	Bank For Intl. Settlements(2)	Very low	334-2143 NY 212-399-1141
1.3	12.6	11.7				Very low	1	22	LB	7	AT&T(1)	Very low	222-8222
1.5	13.1	12.7				Very low	0	22	LB	29	AT&T(3)	Average	222-8222
1.5						Average	6	19	MV	8	First Bank System(3)		222-8222
1.4	15.6	13.9	10.1	8.0		Average	17	41	MG	21	Parametric Technology(3)	High	338-2550 IL 312-368-7800
1.2	16.2	14.5				Average	8	24	MB	23	Stet(2)	Low	338-2550 IL 312-368-7800

Active Growth A. (aaa) Formerly Shearson Appreciation A. (bbb) Formerly Shearson Directions Value Fund B. (ccc) Formerly Shearson Fundamental Value Fund B. (ddd) Formerly Shearson Special Equities
 Formerly Emblem Relative Value Equity Portfolio
See pages 78-79 for an explanation of BW Rating, Trend, and other terms
 DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)			
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE-TAX	AFTER-TAX	YIELD	RA
STEINROE SPECIAL	▲ ▲	Growth	1167.2	63	No load	0.97	20.4	17.8	0.8	
STEINROE STOCK	▲	Growth	369.1	-13	No load	0.93	2.8	0.8	0.6	
STEINROE TOTAL RETURN	▲ ▲	Equity-income	226.5	25	No load	0.81	12.3	10.0	4.5	
STELLAR		Asset allocation	79.2	119	4.50	1.39†	13.1	12.2	2.0	
STI CLASSIC CAP. GROWTH INVESTOR		Growth	168.8	485	3.75	1.80†	9.3	8.4	0.8	
STRATTON MONTHLY DIVIDEND SHARES	▲ ▲	Equity-income	176.4	99	No load	0.96	6.6	4.5	6.7	
STRONG COMMON STOCK		Small company	762.1	325	No load‡	1.40	25.2	23.5	0.2	
STRONG DISCOVERY	▲	Maximum growth	301.8	56	No load	1.50	22.2	19.6	2.6	
STRONG INTERNATIONAL STOCK		Foreign	128.4	910	No load	2.00	47.8	47.0	0.1	
STRONG INVESTMENT	▲ ▲	Asset allocation	254.4	22	No load	1.20	14.5	11.2	4.1	
STRONG OPPORTUNITY	AVG	Growth	443.5	130	No load	1.40	21.2	19.3	0.2	
STRONG TOTAL RETURN		Growth/income	630.3	7	No load	1.20	22.5	22.0	1.4	
SUNAMERICA BALANCED ASSETS B	▲	Balanced	160.3	81	4.00**	1.91†	14.2	10.7	1.5	
SUNAMERICA VALUE B (fff)		Growth	76.7	-8	4.00**	2.49†	19.4	19.0	0.0	
TEMPLETON DEVELOPING MARKETS		Foreign	1391.5	674	5.75	2.28†	74.5	73.9	0.4	
TEMPLETON FOREIGN	▲	Foreign	3528.8	106	5.75	1.12†	36.8	35.7	1.4	
TEMPLETON GLOBAL OPPORTUNITIES		World	410.8	65	5.75	1.50†	38.1	37.1	0.7	
TEMPLETON GROWTH	AVG	World	4625.3	38	5.75	1.03†	32.7	29.9	1.5	
TEMPLETON REAL ESTATE SECURITIES		Specialty	83.9	113	5.75	1.68†	33.0	32.3	1.6	
TEMPLETON SMALLER COMP GRTH	AVG	World	1345.2	44	5.75	1.29†	31.8	31.4	0.9	
TEMPLETON WORLD		World	4986.1	25	5.75	1.02†	33.6	30.0	1.6	
THIRD AVENUE VALUE		Maximum growth	137.6	256	5.75	1.63	23.7	22.6	1.5	
THOMSON EQUITY-INCOME B	AVG	Equity-income	124.7	147	1.00*	2.10†	21.2	20.0	1.9	
THOMSON GROWTH B	▲	Growth	1068.9	13	1.00*	1.90†	9.3	6.6	0.0	
THOMSON INTERNATIONAL B		Foreign	216.1	559	1.00*	2.20†	33.5	32.8	0.0	
THOMSON OPPORTUNITY B	▲ ▲ ▲	Maximum growth	614.5	73	1.00**‡	2.00†	36.2	33.4	0.0	
THOMSON TARGET B		Growth	385.4	4015	1.00*	2.00†	24.5	24.2	0.0	
TNE BALANCED A (ggg)		Balanced	158.6	75	5.75	1.41†	14.2	12.6	2.5	
TNE CAPITAL GROWTH A (hhh)		Growth	98.6	184	5.75	1.00†	7.9	7.7	0.0	
TNE GROWTH A (iii)		Growth	1201.3	2	6.50‡	1.19†	11.3	9.1	0.1	
TNE GROWTH OPPORTUNITIES A (iii)	AVG	Growth/income	109.2	20	5.75	1.17†	7.9	6.7	1.7	
TNE VALUE A (kkk)		Growth/income	189.9	22	5.75	1.34†	17.0	14.5	0.9	
TOWER CAPITAL APPRECIATION	AVG	Growth/income	143.7	14	4.50	0.85†	14.4	11.3	1.8	
TRANSAMERICA CAPITAL APPREC.		Maximum growth	85.6	-10	5.75	1.41†	6.4	6.4	0.0	
TRANSAMERICA GROWTH & INCOME A	▲	Growth/income	125.0	33	5.75	1.34†	9.7	8.6	3.3	
TRANSAMERICA SP. EMERG. GRTH. B		Small company	243.1	127	5.00**	2.64†	11.8	11.8	0.0	
TWENTIETH CENTURY BALANCED INVESTORS	AVG	Balanced	684.8	-2	No load	1.00	7.2	6.5	2.4	
TWENTIETH CENTURY GIFTTRUST INVESTORS	AVG	Small company	163.9	68	No load	1.00	31.4	27.8	0.0	
TWENTIETH CENTURY GROWTH INVESTORS	AVG	Growth	4552.5	-6	No load	1.00	3.8	0.5	0.2	
TWENTIETH CENTURY HERITAGE INVESTORS	AVG	Growth	721.5	70	No load	1.00	20.4	18.7	0.6	
TWENTIETH CENTURY INTL. EQUITY		Foreign	944.5	324	No load	1.90	42.6	40.7	0.0	
TWENTIETH CENTURY SELECT INVESTORS	AVG	Growth	4976.0	6	No load	1.00	14.7	11.1	1.0	
TWENTIETH CENTURY ULTRA INVESTORS	▲	Growth	8353.2	58	No load	1.00	21.8	21.8	0.0	
TWENTIETH CENTURY VISTA INVESTORS		Small company	797.2	-15	No load	1.00	5.4	1.3	0.0	
UMB STOCK	AVG	Growth	114.6	34	No load	0.87	10.7	8.5	2.0	
UNITED ACCUMULATIVE		Growth	1034.4	4	5.75	0.63†	9.0	5.4	1.3	
UNITED CONTINENTAL INCOME	▲	Balanced	421.1	14	5.75	0.77	13.1	11.4	3.3	
UNITED INCOME	AVG	Equity-income	3061.4	21	5.75	0.64†	16.1	15.0	1.6	
UNITED INTERNATIONAL GROWTH		Foreign	491.8	59	5.75	1.18†	46.5	44.1	0.4	
UNITED NEW CONCEPTS	AVG	Small company	218.1	19	5.75	1.17†	10.8	10.1	0.0	
UNITED RETIREMENT SHARES	▲ ▲	Balanced	432.5	38	5.75	0.80†	12.7	10.9	2.4	
UNITED SCIENCE & TECHNOLOGY		Technology	446.7	4	5.75	0.89†	8.5	6.5	0.1	
UNITED SERVICES GOLD SHARES		Precious metals	338.0	163	0.10*	1.88	123.9	122.7	1.7	
UNITED SERVICES WORLD GOLD		Precious metals	168.6	173	0.10*	2.00	89.8	89.8	0.0	
UNITED VANGUARD		Growth	957.3	5	5.75	0.97†	14.2	13.3	0.4	
USAA INVESTMENT BALANCED		Balanced	127.4	40	No load	0.86	13.7	11.6	3.4	
USAA INVESTMENT CORNERSTONE	▲	Asset allocation	762.8	32	No load	1.18	23.7	22.4	2.5	
USAA INVESTMENT GOLD		Precious metals	181.2	66	No load	1.41	58.3	58.3	0.1	
USAA INVESTMENT INTERNATIONAL		Foreign	131.9	206	No load	1.50	39.8	39.0	0.0	
USAA INVESTMENT WORLD GROWTH		World	95.9	342	No load	1.70	24.0	23.9	0.1	

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful

(fff) Formerly SunAmerica Capital Appreciation (ggg) Formerly TNE Balanced, (hhh) Formerly TNE Capital Growth, (iii) Formerly TNE Growth, (iii) Formerly TNE Growth Opportunity, (kkk) Formerly TNE Retirement Fund

ANNUAL TOTAL RETURNS (%)					TREND	PORTFOLIO DATA					RISK	TELEPHONE	
S	5 YEARS	10 YEARS				TURNOVER	% CASH	P/E	STYLE	UNTAXED		TOLL FREE	IN-STATE
ERTAX	PRETAX	AFTERTAX	PRETAX	AFTERTAX	BW 10-YEAR ANALYSIS			RATIO		GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	(800)	
0.6	19.0	16.2	16.0	12.6		Average	9	23	MB	24	Harley-Davidson(2)	Average	338-2550 IL 312-368-7800
0.7	17.3	15.5	12.0	9.3		Low	3	25	LG	33	Cisco Systems(4)	Average	338-2550 IL 312-368-7800
1.4	13.2	10.3	12.0	8.6		Average	10	20	LB	17	Plum Creek Timber(2)	Low	338-2550 IL 312-368-7800
not rated						High	29	22	MV	7	Southwestern Property Trust(2)	677-3863	PA 513-867-5134
not rated							4	21	LB		General Electric(3)	428-6970	
1.4	12.7	10.1	12.8	9.4		Low	1	15	MV	NA	FPL Group(5)	Very low	634-5726 PA 215-941-0255
0.3						High	8	22	MB	14	Marshall Industries(2)		368-1030 WI 414-359-1400
0.6	20.3	17.2				Very high	10	29	MG	11	Telefonos De Mexico (ADR)(3)	Average	368-1030 WI 414-359-1400
not rated						Low	15	28	MB	15	Aoyama Trading(3)		368-1030 WI 414-359-1400
0.5	10.1	7.5	10.5	7.4		Very high	19	23	LB	5	General Instrument(1)	Very low	368-1030 WI 414-359-1400
0.4	14.5	13.4				High	7	21	MB	18	US Cellular(2)	Average	368-1030 WI 414-359-1400
0.6	9.4	8.0	12.3	9.6		Very high	11	26	MG	3	Primerica(2)	Average	368-1030 WI 414-359-1400
0.5	12.1	9.5				Very high	6	28	LG	5	General Motors(2)	Low	858-8850 NY 212-551-5125
0.5	7.3	6.2				Very high	1	27	LG	-8	Eli Lilly(3)	High	858-8850 NY 212-551-5125
not rated						Low	26	19	MV	21	Philippine Long Distance Tel(4)		292-9293 FL 813-823-8712
0.5	15.5	13.2	17.6	15.1		Low	27	22	MV	19	HSBC Holdings(1)	Low	292-9293 FL 813-823-8712
0.8						Low	19	23	LV	28	News Cl A(3)		292-9293 FL 813-823-8712
0.8	15.1	12.2	15.1	12.4		Low	14	23	LV	25	Merrill Lynch(3)	Average	292-9293 FL 813-823-8712
0.8						Low	22	24	SV	6	Bail Investissement(3)		292-9293 FL 813-823-8712
0.2	13.6	10.2	12.9	9.6		Low	9	20	SV	21	News International(2)	Average	292-9293 FL 813-823-8712
0.8	13.0	9.9	13.9	10.6		Low	11	23	LV	25	Merrill Lynch(2)	Average	292-9293 FL 813-823-8712
0.8						Low	34	32	SB	13	Danielson Holding(6)		443-1021 NY 212-888-6685
0.2	10.3	8.5				Very high	12	28	LB	10	Sears Roebuck(3)	Low	227-7337 CT 203-352-4900
0.7	16.9	14.4				High	4	22	LG	15	Intel(5)	Average	227-7337 CT 203-352-4900
0.5	10.4	8.2				Average	12	30	LB	11	Hoechst(2)	High	227-7337 CT 203-352-4900
0.0	28.9	26.5				High	12	36	SG	29	EMC(7)	High	227-7337 CT 203-352-4900
not rated							10	33	MG	9	Micron Technology(4)		227-7337 CT 203-352-4900
0.6	10.6	8.9	11.0	8.1		Average	2	21	LV	12	Intel(2)	Average	343-7104 MA 617-267-6600
not rated						High	4	22	MB	8	Chevron(4)		343-7104 MA 617-267-6600
0.3	15.9	13.4	14.2	11.2		High	0	25	LG	15	Chrysler(10)	High	343-7104 MA 617-267-6600
0.9	13.5	11.1	11.7	8.5		Very low	3	21	LB	28	Exxon(2)	Average	343-7104 MA 617-267-6600
0.1	12.9	10.6	12.8	9.4		Average	2	21	LV	19	Raytheon(2)	High	343-7104 MA 617-267-6600
0.8	14.2	12.0				High	2	19	LV	9	Southwestern Bell(3)	Average	999-0124 PA 504-587-2708
0.6	13.0	12.2				Average	1	29	SG	19	Continuum(5)	Very high	343-6840 TX 713-751-2400
0.3	14.9	12.4	13.7	10.3		High	12	20	MV	9	TRW(2)	Low	343-6840 TX 713-751-2400
0.8	20.6	20.4				Average	4	29	SG	23	Electroglas(1)	High	343-6840 TX 713-751-2400
0.2	13.6	12.4				High	11	23	LB	9	Motorola(7)	Low	345-2021 MO 816-531-5575
0.0	29.0	26.6	22.1	20.0		High	5	39	SG	33	Microchip Technology(6)	Very high	345-2021 MO 816-531-5575
0.4	18.2	16.6	14.3	11.6		High	1	24	LG	22	Intel(8)	High	345-2021 MO 816-531-5575
0.1	17.2	15.5				High	3	27	MB	20	LM Ericsson (ADR)(4)	Average	345-2021 MO 816-531-5575
not rated						Very high	4	26	MB	15	Schweizer Rueckversicherung(4)		345-2021 MO 816-531-5575
0.7	14.9	12.8	12.8	10.4		Average	3	24	LB	19	Motorola(9)	Average	345-2021 MO 816-531-5575
0.0	28.1	27.0	16.7	14.9		Average	3	38	MG	30	Oracle Systems(5)	Very high	345-2021 MO 816-531-5575
0.3	18.1	16.2	12.5	11.1		High	2	42	SG	20	Oracle Systems(5)	Very high	345-2021 MO 816-531-5575
0.3	11.4	9.5	11.7	9.2		Low	18	25	LB	14	IBM(1)	Low	422-2766 MO 816-471-5200
0.8	12.0	9.1	13.1	8.6		Very high	13	25	LB	2	Norfolk Southern(3)	Average	366-5465 KS 913-236-2000
0.8	12.8	11.1	13.0	10.1		Average	9	24	MB	10	Niagara Mohawk Power(2)	Low	366-5465 KS 913-236-2000
0.7	15.2	13.0	16.3	13.2		Low	3	26	LB	34	Motorola(3)	Average	366-5465 KS 913-236-2000
0.9	11.0	9.9	14.4	11.5		High	4	20	MV	29	Ava Allgemeine Handels(2)	High	366-5465 KS 913-236-2000
0.4	19.3	18.7	12.6	11.0		Average	30	34	SG	31	United Healthcare(4)	High	366-5465 KS 913-236-2000
0.9	14.2	12.3	12.4	9.4		Low	20	28	LG	17	DuPont(2)	Very low	366-5465 KS 913-236-2000
0.9	15.3	13.2	13.6	10.6		Average	7	34	MG	35	Cisco Systems(4)	High	366-5465 KS 913-236-2000
0.3	0.1	-0.9	-4.9	-6.9		Low	2	29	SG	-41	Kloof Gold Mining (ADR)(8)	Very high	873-8637 TX 210-308-1222
0.5	8.0	7.9				Low	5	50	SG	12	Delta Gold(17)	Very high	873-8637 TX 210-308-1222
0.7	11.5	9.4	11.6	8.7		Average	6	27	LG	23	Microsoft(4)	Average	366-5465 KS 913-236-2000
0.4						High	16	24	LV	8	Ford Motor(2)		382-8722
0.1	11.1	9.9				Average	6	28	MB	15	BRE Properties Cl A(2)	Low	382-8722
0.4	3.9	3.6				Average	8	45	MG	-37	American Barrick Res.(11)	Very high	382-8722
0.1	11.0	10.4				Average	10	27	LB	19	Astra Cl B Free(2)	High	382-8722
not rated						Average	8	26	LB	13	IRT Property(2)		382-8722

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

FUND	RATING	OBJECTIVE	SIZE		FEES		1993 RETURNS (%)		
			ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	PRE- TAX	AFTER- TAX	YIELD
USAA MUTUAL AGGRESSIVE GROWTH		Maximum growth	288.5	-1	No load	0.86	8.1	6.4	0.1
USAA MUTUAL GROWTH	★	Growth	617.4	23	No load	1.07	7.4	4.2	0.8
USAA MUTUAL INCOME	★ ★ ★	Income	1945.8	34	No load	0.41	9.9	7.1	6.8
USAA MUTUAL INCOME STOCK	★ ★	Equity-income	1129.9	91	No load	0.70	11.6	9.5	5.0
UST MASTER EQUITY	AVG	Growth	120.8	25	4.50	1.08	16.3	15.1	0.4
UST MASTER INCOME & GROWTH	AVG	Growth/income	83.9	122	4.50	1.15	19.4	18.5	2.2
VALUE LINE	AVG	Growth	331.4	1	No load	0.80	6.8	4.5	0.4
VALUE LINE INCOME	★ ★	Income	162.9	0	No load	0.93	8.3	3.9	2.8
VALUE LINE LEVERAGED GROWTH INV.	★	Maximum growth	303.2	4	No load	0.95	16.2	14.9	0.2
VALUE LINE SPECIAL SITUATIONS	★	Maximum growth	91.4	-9	No load	1.10	13.0	11.7	0.0
VAN ECK GOLD/RESOURCES	★ ★ ★	Precious metals	213.1	87	5.75	1.46†	80.6	80.6	0.0
VAN ECK INTERNATIONAL INVESTORS	★ ★ ★	Precious metals	704.1	95	5.75	1.26	113.4	111.3	0.8
VANGUARD ASSET ALLOCATION	★ ★	Asset allocation	1125.8	92	No load	0.49	13.5	11.3	3.2
VANGUARD BALANCED INDEX		Balanced	367.1	238	No load	0.20	10.0	9.7	3.6
VANGUARD EQUITY-INCOME	AVG	Equity-income	1067.9	28	No load	0.40	14.7	12.0	4.3
VANGUARD EXPLORER	★	Small company	847.7	37	No load	0.73	15.4	12.0	0.3
VANGUARD INDEX 500	★	Growth/income	8272.7	27	No load	0.19	9.9	9.0	2.6
VANGUARD INDEX EXTENDED MARKET	AVG	Small company	927.9	59	No load	0.19	14.5	13.8	1.2
VANGUARD INDEX SMALL CAP STOCK	★	Small company	488.9	85	No load	0.18	18.7	16.7	1.1
VANGUARD INDEX TOTAL STOCK MKT.		Growth/income	512.3	86	No load	0.20	10.6	9.8	2.2
VANGUARD INDEX VALUE		Growth/income	190.1	NM	No load	0.20	18.2	16.9	3.2
VANGUARD INTL EQUITY EUROPEAN		Europe	600.8	134	No load	0.30	29.1	28.6	1.4
VANGUARD INTL EQUITY PACIFIC		Pacific	493.6	139	No load	0.31	35.5	35.0	0.6
VANGUARD INTL GROWTH (III) ★	★ ★ ★	Foreign	2127.3	142	No load	0.59	44.7	44.4	0.8
VANGUARD PREFERRED STOCK ★	★ ★ ★	Income	386.4	108	No load	0.59	13.0	10.1	7.4
VANGUARD QUANTITATIVE	★	Growth/income	530.7	28	No load	0.45	13.8	10.2	2.1
VANGUARD SPEC. ENERGY	★	Natural resources	269.6	73	1.00*	0.21	26.4	22.8	1.8
VANGUARD SPEC. GOLD & PREC.	★	Precious metals	609.6	250	1.00*	0.36	93.4	92.5	1.5
VANGUARD SPEC. HEALTH CARE	★ ★	Health care	609.1	0	1.00*	0.22	11.8	9.5	2.1
VANGUARD SPEC. UTILITIES INCOME		Utilities	774.1	148	No load	0.45	15.1	12.4	4.7
VANGUARD STAR	★	Balanced	3628.2	46	No load	0.00	11.0	8.9	3.4
VANGUARD U. S. GROWTH (mmm)	★	Growth	1847.2	2	No load	0.49	-1.4	-1.9	1.4
VANGUARD/MORGAN GROWTH ★	★	Growth	1135.2	2	No load	0.48	7.3	3.9	1.3
VANGUARD/PRIMECAP (nnn)	★	Growth	790.9	22	No load	0.67	18.0	16.9	0.4
VANGUARD/TRUSTEES' EQUITY INTL. (ooo)	★	Foreign	982.3	45	No load	0.45	30.5	29.5	2.6
VANGUARD/TRUSTEES' EQUITY U. S. (ppp)	★	Growth/income	118.7	73	No load	0.98	17.2	14.6	1.3
VANGUARD/WELLESLEY INCOME (qqq) ★	★ ★ ★	Income	6011.5	89	No load	0.36	14.6	12.0	5.8
VANGUARD/WELLINGTON (rrr) ★	★	Balanced	8075.8	45	No load	0.35	13.5	11.4	4.4
VANGUARD/WINDSOR (sss) ★	★	Growth/income	10610.8	20	No load†	0.40	19.4	16.5	2.5
VANGUARD/WINDSOR II (ttt)	AVG	Growth/income	7616.3	41	No load	0.39	13.6	11.7	2.9
VISTA CAPITAL GROWTH A	★ ★ ★	Growth	263.7	375	4.75	1.48†	20.2	19.4	0.2
VISTA EQUITY (uuu)		Growth	108.9	-3	No load	0.30†	8.6	6.2	2.2
VISTA GROWTH & INCOME A	★ ★ ★	Growth/income	1032.0	443	4.75	1.39†	13.0	12.3	1.1
VONTOBEL EUROPACIFIC	★	Foreign	136.9	188	No load	1.98	40.8	40.8	0.0
WARBURG PINCUS CAP. APPR.COMMON	AVG	Growth	158.9	32	No load	1.01	15.9	13.1	2.0
WARBURG PINCUS EMERGING COMMON	★	Small company	183.1	66	No load	1.20	18.1	16.2	1.1
WARBURG PINCUS INTL EQUITY COMM		Foreign	507.0	410	No load	1.46	51.3	51.1	0.4
WASHINGTON MUTUAL INVESTORS ★	AVG	Growth/income	12638.5	25	5.75	0.70†	12.8	11.1	2.8
WAYNE HUMMER GROWTH ★	★	Growth	99.0	25	No load	1.12	3.1	2.8	1.0
WEITZ VALUE	★ ★	Growth	106.7	115	No load	1.35	20.0	18.8	0.1
WILLIAM BLAIR GROWTH SHARES	★	Growth	149.8	35	No load	0.78	15.5	12.3	0.3
WINTHROP FOCUS AGGRESSIVE GROWTH	★	Maximum growth	81.6	83	4.00**	1.37†	21.8	19.4	0.2
WOODWARD EQUITY INDEX RETAIL		Growth/income	319.5	35	No load	0.22†	9.8	8.7	2.4
WOODWARD GROWTH/VALUE RETAIL		Growth	404.7	43	4.50	0.83†	13.8	11.6	1.7
WOODWARD INTRINSIC VALUE RETAIL		Growth	181.1	80	4.50	0.84†	14.9	12.5	2.4
WOODWARD OPPORTUNITY RETAIL		Small company	346.1	116	4.50	0.84†	24.2	22.3	0.6
WPG TUDOR ★	★	Growth	237.5	-13	No load	1.24	13.4	8.0	0.0
YACKTMAN		Growth	143.0	92	No load	1.19†	-6.6	-7.0	1.5
ZWEIG APPRECIATION A		Small company	230.2	15	5.50	1.74†	15.4	14.0	0.4
ZWEIG STRATEGY A		Growth	405.9	13	5.50	1.47†	15.0	8.6	0.8

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. NA = Not available. MN = Not meaningful

(III) Formerly Vanguard World Fund Intl. Growth Port. (mmm) Formerly Vanguard World U.S. Growth Port. (nnn) Formerly PRIMECAP Fund. (ooo) Formerly Trustees' Commingled Fund Intl. Port. (ppp) Formerly Commingled Fund U.S. Port. (qqq) Formerly Wellesley Income Fund. (rrr) Formerly Wellington Fund. (sss) Formerly Windsor Fund. (ttt) Formerly Windsor II. (uuu) Formerly Trinity Equity Fund.

COREBOARD

EQUITY FUNDS

ANNUAL TOTAL RETURNS (%)					TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA						RISK	TELEPHONE	
5 YEARS PRETAX AFTERTAX	10 YEARS PRETAX AFTERTAX	15 YEARS PRETAX AFTERTAX	20 YEARS PRETAX AFTERTAX	TURNOVER		% CASH	P/E RATIO	STYLE	UNTAILED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	TOLL FREE (800)		IN-STATE	
7.6	11.8	9.6	7.9	6.2		High	5	27	SG	18	Healthsouth Rehabilitation(4)	Very high	382-8722	
2.9	14.0	12.4	10.2	7.9		High	1	24	LB	10	National Semiconductor(3)	Low	382-8722	
9.8	12.2	9.4	12.0	8.1		Average	2	13	MV	4	Public Service Enterprise(2)	Very low	382-8722	
3.3	13.9	11.6				Low	2	19	LV	4	Dow Chemical(4)	Low	382-8722	
1.2	15.3	14.1				Low	2	24	MB	26	Nextel Communications Cl A(4)	Average	233-1136	MA 617-451-1912
0.9	12.7	11.1				Low	8	25	MB	15	Nextel Communications Cl A(2)	Low	233-1136	MA 617-451-1912
5.3	17.4	14.2	13.2	10.3		High	12	23	MG	23	Superior Industries Intl(3)	Average	223-0818	NY 212-687-3965
9.3	12.1	9.4	11.1	7.5		High	6	22	MB	5	Atlantic Richfield(3)	Very low	223-0818	NY 212-687-3965
4.9	16.6	13.5	12.9	10.0		Very high	8	22	MG	25	DSC Communications(3)	High	223-0818	NY 212-687-3965
3.4	11.9	10.9	4.5	3.4		Average	8	32	SG	30	Fleet Call Cl A(3)	High	223-0818	NY 212-687-3965
7.7	7.4	7.3				Very low	7	45	MG	-9	Plutonic Resources(13)	Very high	221-2220	NY 212-687-5201
4.8	11.4	10.1	6.2	4.3		Very low	1	40	MG	41	American Barrick Res.(7)	Very high	221-2220	NY 212-687-5201
3.3	13.8	11.8				Low	0	22	LB	6	General Electric(2)	Very low	662-7447	PA 215-669-1000
not rated						Average	2	22	LB	4	General Electric(1)		662-7447	PA 215-669-1000
1.1	11.8	9.7				Low	5	19	LV	10	Texaco(3)	Low	662-7447	PA 215-669-1000
5.1	14.7	13.4	7.7	6.2		Average	16	25	SB	18	Dionex(2)	High	662-7447	PA 215-669-1000
1.4	14.3	13.0	14.6	12.6		Very low	0	22	LB	15	General Electric(3)	Average	662-7447	PA 215-669-1000
3	14.3	13.2				Low	1	24	SB	18	Microsoft(1)	Average	662-7447	PA 215-669-1000
1.3	13.0	10.7	7.0	5.1		Low	2	25	SB	13	LDDS Comm. Cl A()	High	662-7447	PA 215-669-1000
not rated						Very low	2	22	LB	9	General Electric(2)		662-7447	PA 215-669-1000
not rated						Low	0	21	LV	5	Exxon(5)		662-7447	PA 215-669-1000
2						Very low	0	22	LV	13	Royal Dutch Petroleum(3)		662-7447	PA 215-669-1000
7						Very low	1	44	LB	10	Sumitomo Bank(3)		662-7447	PA 215-669-1000
9	9.4	8.2	17.0	14.5		Average	5	29	LV	19	Ito-Yokado(3)	High	662-7447	PA 215-669-1000
3	13.4	10.4	12.8	8.9		Average	4	NA		1	Ford Holdings Cl A Pfd 8 (3)	Very low	662-7447	PA 215-669-1000
0	15.4	13.3				Average	2	18	LV	4	General Electric(3)	Average	662-7447	PA 215-669-1000
3	13.8	11.3				Average	5	27	MB	1	Phillips Petroleum(4)	High	662-7447	PA 215-669-1000
8	11.2	10.3				Very low	6	43	MG	21	Franco-Nevada Mining(3)	Very high	662-7447	PA 215-669-1000
5	20.1	18.2				Low	4	24	MB	18	Schering(5)	Average	662-7447	PA 215-669-1000
not rated							3	16	MV	3	NYNEX(4)		662-7447	PA 215-669-1000
9	11.7	9.3				Very low	13	NA		7	Vanguard/Windsor II(42)	Low	662-7447	PA 215-669-1000
6	16.4	15.9	12.5	10.0		Average	13	23	LG	11	General Electric(6)	Average	662-7447	PA 215-669-1000
2	12.9	10.0	12.0	8.3		Average	15	22	LB	13	May Department Stores(2)	Average	662-7447	PA 215-669-1000
3	15.2	13.8				Low	7	27	MB	30	Federal Express(5)	High	662-7447	PA 215-669-1000
2	7.7	5.9	16.2	12.1		Average	6	28	MB	17	Onward Kashiwayama(2)	High	662-7447	PA 215-669-1000
7	11.2	8.7	11.3	7.5		High	4	21	MB	11	Chevron(3)	Average	662-7447	PA 215-669-1000
3	13.7	10.9	14.1	10.4		Low	1	18	LV	6	DuPont(1)	Very low	662-7447	PA 215-669-1000
8	12.4	10.1	13.6	10.6		Low	5	22	LB	14	General Electric(2)	Low	662-7447	PA 215-669-1000
3	11.7	8.5	15.3	11.1		Low	12	20	MV	11	Citicorp(5)	Average	662-7447	PA 215-669-1000
9	13.5	11.2				Low	9	20	LV	12	Anheuser-Busch(3)	Low	662-7447	PA 215-669-1000
9	25.8	24.7				Average	17	27	SB	11	Scientific-Atlanta(2)	Average	348-4782	
6						Low	2	22	LB	18	Exxon(3)		348-4782	
9	26.6	24.3				Average	17	20	MV	6	Tribune(1)	Low	348-4782	
6	9.5	9.4				Low	6	28	MB	20	Allied Irish Banks (ADR)(1)	High	527-9500	
6	13.5	12.0				Average	6	21	MB	25	AFLAC(3)	Average	257-5614	NY 212-878-0600
2	17.8	16.8				Average	8	28	SG	22	American Freightways(3)	High	257-5614	NY 212-878-0600
9						Average	4	28	MV	19	Govett Atlantic Investment(2)		257-5614	NY 212-878-0600
3	13.5	11.6	14.7	12.0		Low	4	19	LV	21	GTE(4)	Low	421-0180	DC 202-842-5665
0	13.8	12.6	12.7	11.2		Very low	12	23	MB	20	Morton International(4)	Low	621-4477	IL 312-431-1700
6	15.0	13.2				Low	26	19	LG	18	McCaw Cellular Comm Cl A(4)	Low	232-4161	NE 402-391-1980
9	18.1	14.0	13.2	9.0		Low	9	31	MG	25	Morton International(3)	Average	742-7272	IL 312-853-2424
5	17.0	13.3	13.3	10.2		Average	17	21	SV	NA	Quick & Reilly Group(5)	Average	225-8011	NY 212-504-4000
not rated						Very low	0	NA		10	NA		688-3350	MI 313-259-0729
not rated							16	21	LB	8	Ryder System(3)		688-3350	MI 313-259-0729
not rated							9	24	MV	5	Thiokol(2)		688-3350	MI 313-259-0729
not rated							6	22	SB	19	Fingerhut(2)		688-3350	MI 313-259-0729
3	15.6	11.2	12.6	9.4		High	0	31	SG	25	Informix(2)	High	223-3332	NY 212-908-9582
not rated							0	16	LB	-4	Philip Morris(6)		525-8258	IL 312-201-1200
not rated						Average	21	15	MV	16	Equitable Of Iowa(1)		444-2706	NY 212-635-9800
4						Very high	52	14	MV	3	Conseco(2)		444-2706	NY 212-635-9800

See pages 78-79 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

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Please check one response for each following question.

1 What is your company's type of business?

- 1 ☐ Agriculture 2 ☐ Mining, Construction 3 ☐ Manufacturing, Processing 4 ☐ Wholesale, Retail Trade
5 ☐ Finance, Insurance, Real Estate 6 ☐ Government 7 ☐ Transportation, Public Utilities
8 ☐ Service Industries 9 ☐ Other - Please Specify:

2 What is your title?

- A ☐ Chairman of the Board B ☐ President C ☐ Vice President D ☐ Treasurer, Secretary
E ☐ General Manager F ☐ Division Manager G ☐ Department Manager H ☐ Other Manager I ☐ Student
J ☐ Other - Please Specify:

3 How many employees in your company worldwide?

- 1 ☐ Under 100 2 ☐ 100-999 3 ☐ 1,000-2499 4 ☐ 2,500 to 4,999 5 ☐ 5,000 to 9,999 6 ☐ 10,000 or more

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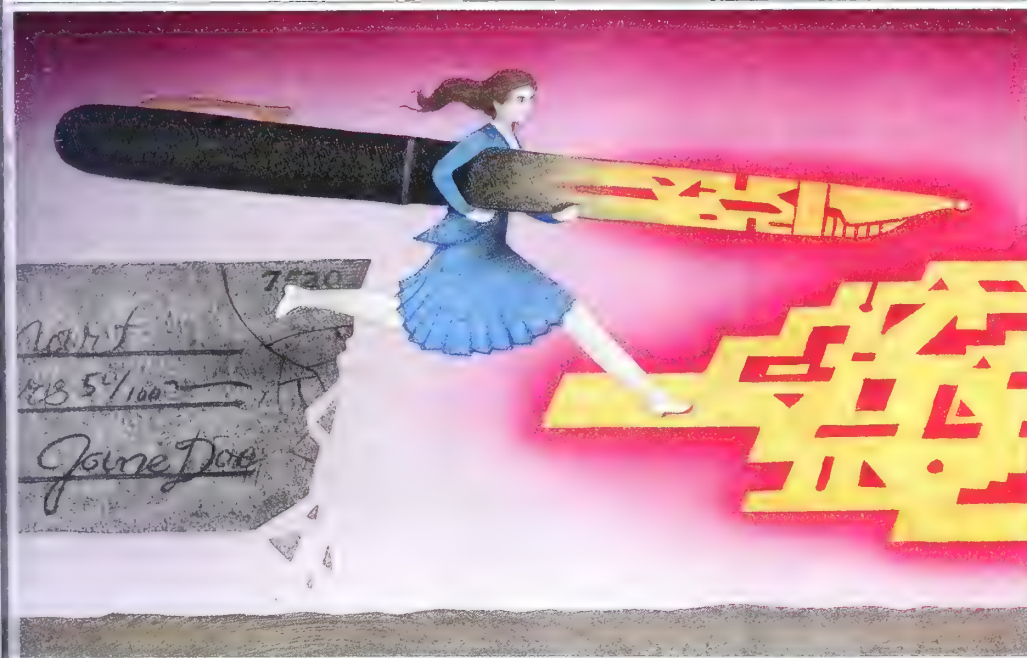
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LASTIC ALKS

lit- and debit-card use is growing—and that's fine with banks

ity Deluxe Corp. The St. Paul (Minn.) company last year announced the first layoffs in its 78-history, said it would close 16 of its s check-printing plants, and took a illion charge to finance the chang-spokesman says the company is d-ying into new businesses such as ng cards and business-form manu-ing. But even so, Wall Street ana-pect future net income to do lit-ore than rebound to 1992 levels gh 1995.

ortunately for De-and other checkrs, though, a fun-tal change in con-behavior is lim-the prospects for growth in their businesses. Cons are increasingly g their checkbooks ir desks and cong their business plastic cards. and cash usage

is growing more slowly than consumer spending—and at a mere fraction of the growth rate for credit, debit, and other plastic cards such as prepaid cards.

Consumers still use checks and cash for most transactions—67% of all payments outside the home, according to First Manhattan Consulting Group Inc. But with plastic accepted in more places and offering side benefits such as frequent-flier miles and savings on new cars, card use is booming and could account for nearly half of all transactions

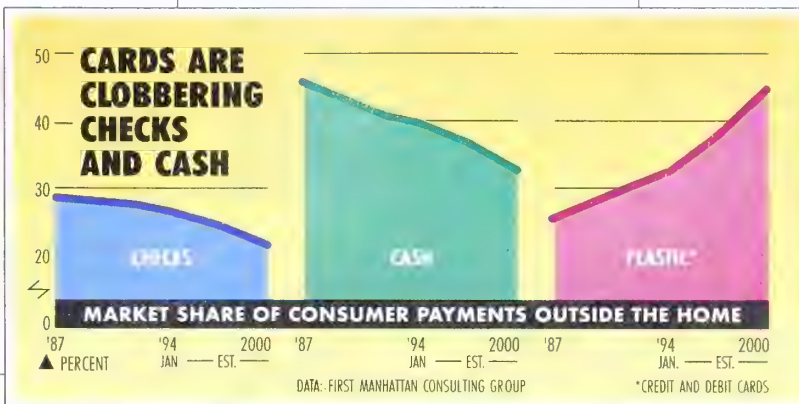
by the year 2000. Both banks and consumers have incentives to go plastic: Techno-banking gives consumers greater flexibility and pares banks' costs vs. checks, sometimes by more than 50%.

New banking equipment is hitting the market at a rapid rate. Banking via television could soon be widely available. Philadelphia-based Meridian Bank is teaming up with Reston, Va.'s Eon Inc. to offer interactive television that could soon include a few basic banking services. Time Warner Cable is preparing to launch a pilot interactive-TV system this spring in Orlando

that could eventually give consumers access to their banks—although initially, the system probably will offer only entertainment services.

POCKET PC. Some bankers also talk about "electronic checkbooks," plastic cards holding microchips that can handle all manner of transactions and then read that information into a personal computer or interactive TV. "Ultimately, a consumer would have a single card that supports all the kinds of purchasing they do today," says Ronald Braco, senior vice-president for electronic banking at Chemical Bank. "You would have the equivalent of a PC in your pocket." Alex W. "Pete" Hart, the outgoing president and chief executive officer of Master-Card International Inc., says he expects to see smart cards in wide use within the decade. Banc One Corp., in fact, already offers a microchip card that lets consumers earn points they can use to save money on selected products.

Even without these advances, plastic is pushing checks and cash toward the sidelines. Some of the most visible changes involve debit cards, which allow customers to make purchases with funds deducted directly from their checking accounts. Merchants in particular now have more reasons than ever to prefer debit cards over checks or even credit cards. Debit-card fees and costs for mer-

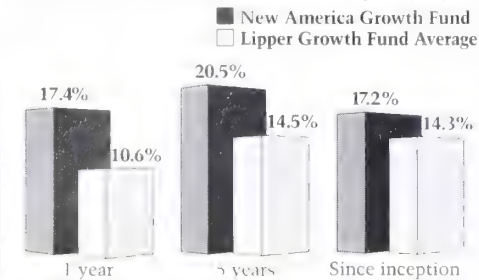


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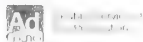
*Source: Lipper Analytical Services, Inc. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Total return represents past performance, which cannot guarantee future performance. Investment returns and principal value will vary, and shares may be worth more or less at redemption than at original purchase. Past and present expense limitations have increased the Fund's total return. **9/30/85. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor.



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Finance

chants are often lower than those associated with credit cards. And merchants also don't have to worry about bounced checks: Many debit-card transactions be instantly checked against a customer's account balance.

Consumers also have good reasons to use a debit card. Merchants sometimes charge fees when consumers use debit cards, but even with those fees, debit cards are more attractive than they were. For one thing, it's faster than writing a check and having to show several forms of ID. And low interest rates have wiped out the appeal of checking account float: With many checking accounts paying interest of 2% or less, there's little reason for consumers to hold out for the three days of float that get when they write checks.

HOT DOGS. Banks also like debit cards. They are already benefiting from lower processing costs that debit cards entail. Processing costs for automated transactions are a fraction of those for checks, according to Gemini Consulting. A check costs 68¢, on average, to process, but an ATM transaction costs 27¢, on average, and a debit-card transaction in a store costs just 14¢.

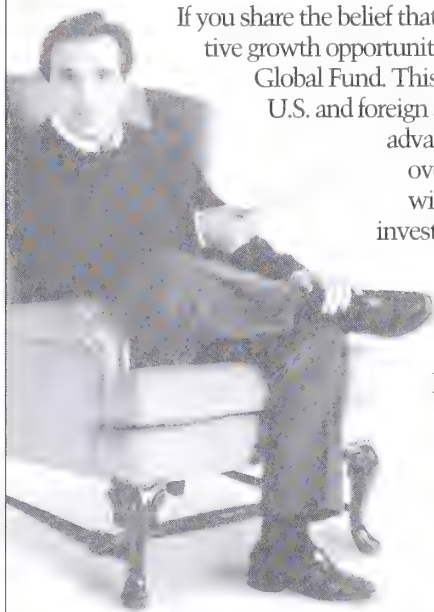
The usefulness of credit cards is expanding, especially in transactions that were once the exclusive domain of cash. In the past, only merchants selling ticket items would take credit cards. Now, it's possible to use a Visa card to buy a hot dog at a football game, a picture frame at a crafts fair. More and more grocery stores take credit cards. And lots of small vendors have radiomated authorization card-processing machines that let them get clearance for a transaction even if they don't have a telephone at the checkout counter. Says Jennifer Brandenburg, a senior business analyst at supermarket chain Lucky Stores Inc.: "As a retailer, you almost have to [accept credit and debit cards] to be competitive."

The most profound revolution in electronic usage is likely to be engineered by prepaid cards. They are just beginning to catch on, but credit-card-industry executives have big plans for them. The Washington subway system has operated on prepaid fare cards for years. New York City's subway is starting to adopt them. Banks all over the country are experimenting with the cards. Chase Manhattan Bank's Metrotech Center in Brooklyn, staffers use prepaid cards to buy lunch in the cafeteria. In vending machines. Cashiers will take cash. Chemical Bank has a similar system in place for some of its New York City employee cafeterias.

Even high-tech bill paying is ex-

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Home banking via computer, of course, has been around for some time. Much more accessible automated payment can now be done by telephone. Telephones with attached screens, retailing for under \$100, enable consumers to send money electronically to their personal accounts to their locality and telephone company. ATM Pay Corp. in Wilmington, Del., has developed a system designed to let consumers pay their bills and even receive electronic messages through ATMs. Some home-banking programs may be offered nationwide. MasterCard is offering a home-banking service known as eBanking and is busily enlisting consumers. Similarly, Visa International has a deal with Intuit Inc., the Menlo

Paradise, Calif.-based maker of Quicken financial-management software, that will enable consumers to see their bank statements electronically, pay their bills, and integrate their bank-statement information into their overall financial planning records. Interactive-TV banking programs could eventually be nationwide as well. Consumers could still take longer than they expect to get comfortable with home banking. Cash offers anonymity and a plastic card can match. And if electronic banking really takes over, it raises security and privacy concerns for consumers. "Right now, there are no questions on how credit-card companies can use the information they get," says Gerri Detweiler, executive director of Bankcard Holders of America. The more business that consumers conduct on plastic cards, the more they are at risk if thieves are able to use those cards. Of course, checks will still be common in the coming century. However, if current trends continue, a growing number of late bill-payers will need to come up with a better excuse than "the check is in the mail."

Kelley Holland in New York, with Burns in Chicago

**When
you give blood
you give
another
birthday,
another laugh,
another hug,
another
chance.**



American Red Cross

Please give blood.



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BY GENE G. MARCIAL

TAKEOVER FEVER PART II: THE MANIA CONTINUES

Call it strategic alliances or synergistic combinations. In fact, it's becoming clear that mergers and acquisitions are back. Take the raging battle for Paramount Communications or BankAmerica's \$1.9 billion deal to buy Continental Bank. They are sending some savvy pros back to the 1980s game of scouting for takeover targets.

Ed Kerschner, chairman of PaineWebber's investment policy committee, gives three reasons behind the rising takeover fever: First, despite the market's surge, many companies are still selling below their replacement values. Second, companies seeking revenue growth are acquiring other companies. And third, the rash of restructurings has opened up more opportunities for strategic linkups.

Kerschner is convinced takeovers will proliferate in entertainment, banking, telecommunications, and consumer products. In entertainment, Walt Disney tops the list. Kerschner insists Disney could start out as an acquirer or an acquiree. Who could be big enough to purchase Disney? One takeover investor says the company has been trying to woo CBS for the past three years. But it is possible, he adds, that CBS Chairman and CEO Larry Tisch may resort to a Pac-Man defense by stalking Disney instead.

Whatever the outcome, any such move will provoke General Electric, which owns NBC, into making a bid for Disney, says this pro. "GE won't just sit still and watch CBS gobble up Disney to become a much larger broadcasting giant." So whether Disney Chairman and CEO Mike Eisner "knows it or not, Disney is now essentially in play," argues this investor. The three companies declined comment.

IRRESISTIBLE BUY. In banking, Midlantic, a New Jersey bank-holding company with assets of \$14 billion, says it will dispose of \$290 million of troubled real estate assets. The move will greatly improve the bank's asset quality. "It is the last step necessary to put Midlantic in a position to be acquired," says PaineWebber's Lawrence Cohn. Its franchise, he thinks, will be irresistible to New York and Pennsylvania banks looking to expand in New Jer-

KERSCHNER'S TAKEOVER PICKS

STOCK	FEB. 2 PRICE	BUYOUT VALUE
ALC COMMUNICATIONS Long distance telephone	\$33 1/2	\$50
WALT DISNEY Theme parks, films, television	47	65
GERBER PRODUCTS Baby food	28 1/4	40
MIDLANTIC New Jersey regional bank	28 7/8	45

DATA: PAINEWEBBER, BUSINESS WEEK SURVEY

sey. Cohn thinks a buyout of Midlantic, now at 29, "in the mid-to-high 40s is possible." Midlantic declined comment.

ALC Communications, a niche player in the U.S. long-distance market, could be attractive to foreign telecommunications companies such as France Telecommunications or Britain's Cable & Wireless, which want to gain a U.S. foothold. Now at 31 a share, ALC's takeout value is around 50. Says ALC Chairman and President John Zrno: "We're not seeking but will not necessarily oppose an offer."

Gerber Products dominates 71% of the U.S. baby-food market, with \$1.2 billion in sales. "It could be attractive to a large food company—whether U.S. or foreign—that wants to expand in the U.S. food business, says Kerschner. Possible buyers: Nestlé, Unilever, BSN Group, and Quaker Oats. Now at 28, Gerber is well worth 20 times earnings, or 40 a share, figures Kerschner. Gerber declined to comment.

PLAYING THE SLAMMER

All the talk in Washington about getting tough on crime is prompting some strategists to look for a pure play on, what else, crime. They have come up with Mark Solutions, a designer and maker of modular prison steel cells that are cheaper and faster to build than the standard jail structures. "Mark is providing a solution to the festering problem of jail overcrowding," says Aaron Lehmann, president of Fulton Group, a research consulting firm.

Mark's cells, which meet building and safety code requirements in all states, are in use at Rikers Island in

New York and a number of jails in Missouri and New Jersey. The cells, which are prefabricated and made of lightweight steel, are equipped with the basic lavatory and toilet facilities and wall-mounted beds. They are designed to be used as containment units for prisoners afflicted with infectious diseases such as tuberculosis and AIDS. For this purpose, the units could be equipped with shower facilities, air flow systems, and an anteroom for health-care providers.

The analyst says Mark is currently in talks with agencies in Florida, Oklahoma, Puerto Rico, and Texas to supply cells. "Over the next 12 months, Mark will enter bids for \$500 million worth of steel cells in these states," he says.

Lehmann believes the American Stock Exchange-listed company will turn a profit for the first time in 1994 at 45¢ a share on estimated sales of \$10 million. In 1995, earnings will be \$1 million on sales of \$70 million. One Mark manager, who owns 5% of Mark, estimates that based on Lehmann's estimates, the stock, now trading at \$1.25, could well double in a year.

WHAT'S PUMPING LUMEX?

Medical-equipment stocks have been taking it on the chin as a consequence of stiff price competition and concern over the health reform bill. But lately, Lumex shares have regained some strength, rising to 12 from 9 in mid-January.

What's firing up the stock? Watchers are that a takeover move is afoot. Talk is that one big investor has finally decided to sell his stake to a group linked with a major company that has its eye on Lumex.

Investment pro Mike Connor of Farnestock says that as a result of such speculation, he thinks management has taken steps to boost the stock's price. Namely, the company is planning to sell one of its two major divisions: the Lumex unit, which manufactures and distributes equipment for nursing homes, clinics, and hospitals. Products include bathroom-safety equipment and ambulatory aids. The unit alone, says Connor, is worth about 11 a share.

The other unit, Cybex, makes fitness and exercise equipment used for rehabilitation and conditioning. In the takeover, Connor estimates that the entire company could be priced at \$20 a share in a takeover.

A Clear View of Latin America

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ROBO-SOFTWARE REPORTS FOR DUTY

Powerful new programs automate routine—and complex—tasks

Robots have long captured man's imagination as tireless, eternally loyal servants. But even today, with many factories having gone robotic, few people have ever seen a true robot, much less owned one that they could boss around.

All that may change now, as a new kind of robot starts prowling the digital highways and byways of cyberspace. It's what computer scientists call an "agent"—a kind of software program that's powerful and autonomous enough to do what all good robots should: help the harried humans by carrying out tedious, time-consuming, and complex tasks. Software agents just now emerging from the research labs can scan data banks by the dozen, schedule meetings, tidy up electronic in-boxes, and handle a growing list of clerical jobs. In the next couple of years, experts predict, agents will be available from all the major software companies and quite a few startups as well.

SUPERHIGHWAY SURFEIT. At Hewlett-Packard Co., an agent supplied by Edify Corp. is already helping automate a quarterly wage-review process that covers approximately 13,000 salespeople. Edify's software, running on a PC, performs essentially the same tasks that a team of 20 administrators has been doing by hand. First, the agent program dials into the HP personnel system and gets a list of who works for each of 1,200 sales managers nationwide. The agent then electronically mails each manager a list for his verification. It collects any changes by e-mail and enters them back into the personnel system—exactly as if a human were working at a terminal.



SOME "AGENTS," SUCH AS WOGGLES, APPEAR AS CARTOON FIGURES

Now, the agent repeats the entire process, but this time it includes proposed salary changes supplied by management for each employee. Managers can approve the changes or alter them simply by phoning the PC and keying in new data in response to the Edify agent's synthesized voice prompts.

An entire menagerie of software agents is starting to debut—some sophisticated, some simple, some quite visible, others programmed to work strictly behind the scenes. Ideally, they will mimic just what an intelligent human would do, except with greater stamina and accuracy. This might be the only way that mere mortals will be able to cope with the widely hailed Information Superhighway and its cornucopia of services and machine-gener-

ated messages demanding immediate attention.

The windows-icon-mouse interface that Alan Kay and other computer scientists developed at Xerox Corp. in the 1970s isn't keeping up with the complexity of networks. Unassisted, people can keep track of only so many graphical icons, for instance. "You're connected to millions or billions of different resources," predicts Kay, a research fellow at Apple Computer. "One of the biggest problems is to

manage this information. We don't believe you can browse for it. To find what you need, he says, the computer "has to be intelligent enough to take on most of your goals. You either tell it or teach it what you're interested in, and dispatch agents. The agents will find things and screen them."

PLAUSIBLE LIES. To make these happen, agent developers are building on the past decade's research in artificial intelligence (AI). Agents are incorporating techniques for understanding human language and learning to fulfill masters' wishes by observing how they search for information. Says Ted Selmer, a researcher at IBM and a professor at Stanford University: "We want to create a tight feedback loop between the user and his computer assistant." That way, an agent might scour a large network of data banks to answer a difficult question, such as "How's the Asian stock market doing compared with Europe's?"

Until recently, even simple agents weren't practical, although AI researchers had sketched out the concept in the late 1950s. "The way you do research is to make up lies that are plausible, then invent the technology to make them true," Kay quips. Now the technology is in place: sprawling networks, powerful computers that are capable of running complex software. In the next few years, everything from personal digital assistants (PDAs) to desktop PCs and supercomputers will likely run on some form of agent software. Just how big the market it will be is hard to estimate. The term "agent," like AI 10 years ago, is being applied to new products a bit sloppily—in this case, to just about any program that works on your behalf.

In the tradition of those wise-

to treat symptomatic benign enlarged prostate:
Only one medicine can shrink the prostate.

PROSCAR.[®] (FINASTERIDE)

Until recently, there wasn't a medicine that could help the condition known as symptomatic benign prostate enlargement or BPH. But now there is PROSCAR, the first oral prescription medicine that can shrink an enlarged prostate.

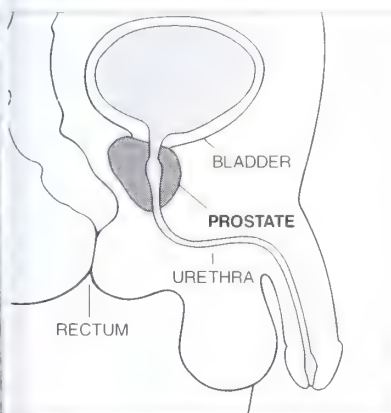
However, it is important to know the following: PROSCAR doesn't work for everyone. Even though your prostate may shrink, you may not see an improvement in urinary flow symptoms. And you may need to take PROSCAR for 6 months or more to see whether it helps you.

How PROSCAR can shrink an enlarged prostate.

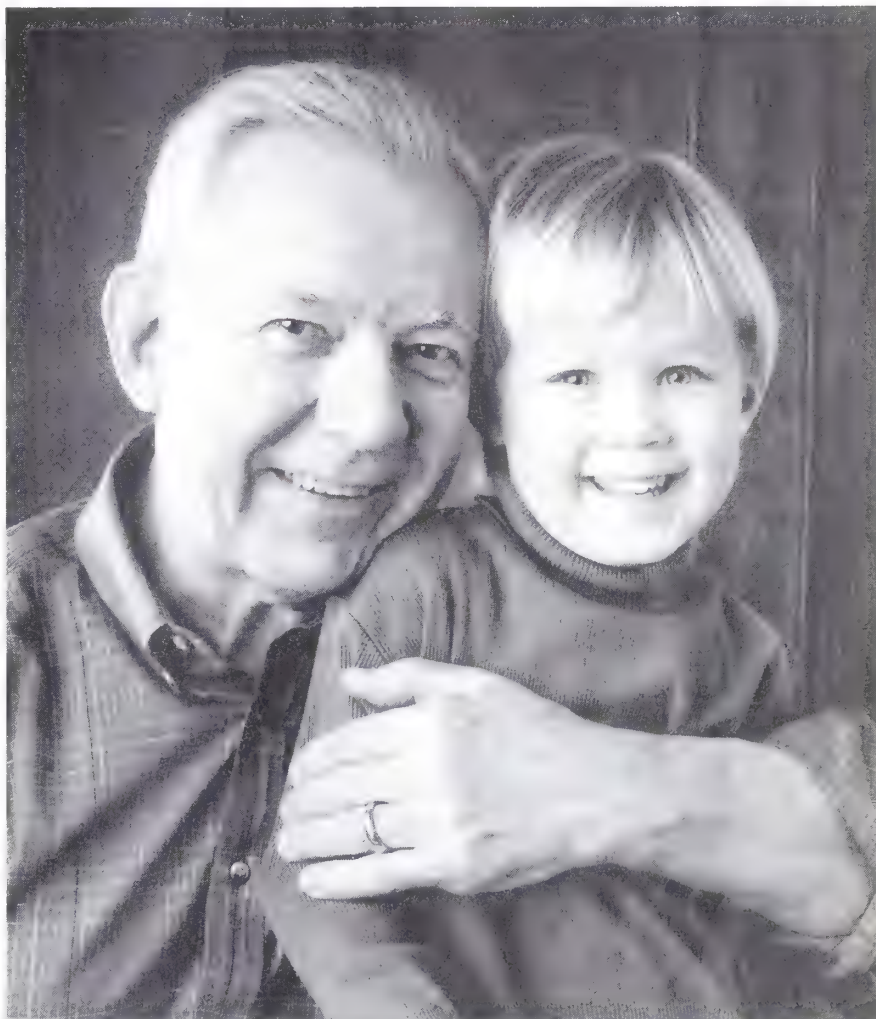
As a man ages, a key hormone can help cause the prostate to grow. PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, many men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

Why you should see your doctor soon.

Your doctor has several options for the treatment of symptomatic BPH: watchful waiting (monitor-



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.



ing the condition with regular checkups), medication, or surgery. It's important to see your doctor because the problem doesn't usually get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, have your family doctor or a urologist assess your condition and ask if PROSCAR is an appropriate treatment for you.

It is also important to have regular checkups. *While benign prostate enlargement is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Remember, only a doctor can evaluate your symptoms and their possible causes. So, if your urinary symptoms are bothering you, don't wait any longer. You may find that your enlarged prostate can be made into a smaller problem.

For more information about prostate enlargement and PROSCAR, call 1-800-635-4452 today.

TABLETS
PROSCAR[®] 5mg
(FINASTERIDE)



PATIENT INFORMATION ABOUT PROSCAR® (Prah-s-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

• **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.

• **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.

• **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery

What you need to know while taking PROSCAR

• **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.

• **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

• **A warning about PROSCAR and pregnancy.**

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT 'PROSCAR' AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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The National
Arbor Day Foundation

Call Rain Forest Rescue Now
1-800-255-5500

formation Processing

robots in sci-fi movies, software agents are also subject to much anthropomorphizing—and in some cases for a reason. At Carnegie Mellon University, Stanford University, and software think-tank Interval Research Corp., researchers are trying for “believable agents”—programs that embody a character and present themselves as animated cartoon faces that react to stimuli with convincing human expressions. At Carnegie Mellon, a family of such agents called Gels—Shrimp, Bear, Wolf—populates a simulated virtual world. In entertainment, people interact with them via a computer, mouse-controlled dialogue. One day, similar agents may make computers more human by giving their operating systems believable screen personalities. “If you do something wrong, say, ‘We want to create agents that gain our confidence,’” says Joseph P. A. senior research computer scientist at Carnegie Mellon. All agents strive for humanity,

though. The Internet, connecting thousands of research computers around the world, relies on agents called gophers, which automatically retrieve information from all over the network. And Rupert Murdoch’s News Electronic Data Inc. is getting ready to unleash Oliver, which will fetch personalized

fused as hell. We’re just trying to lower people’s expectations” about agents. American Telephone & Telegraph Co., meanwhile, is heavily promoting the intelligent software assistants scheduled to be available on its forthcoming PersonaLink computer network. They’ll be programmed with software

from General Magic, a Silicon Valley startup that’s funded by AT&T, Sony, Motorola, and several other large electronics companies. The agents will help consumers communicate and purchase information, goods, and services from companies such as Mead Data Central Inc. A mail agent might have you paged when important e-mail arrives. A personal shopping agent could browse electronic malls for you and even make purchases using your credit-card number. Who knows? Perhaps in the future people doing business in cyberspace will just say: “Have your agent talk to my agent.”

By John W. Verity in New York, with Richard Brandt in San Francisco

AGENTS: AT YOUR SERVICE

How personalized intelligent assistants, or software agents, can help people cope in the Information Age:

NETWORK AGENTS They’ll scan data bases and electronic mail, schedule meetings, and help with travel arrangements

CLERICAL AGENTS In offices, they help answer phones, tap into computers for customer data, and send faxes

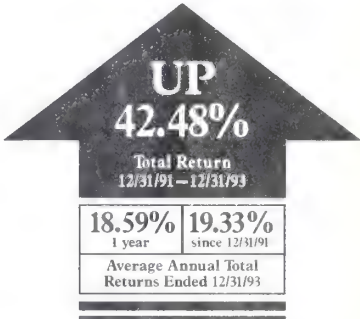
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news and travel information. It’s to appear on screens later this year as a Labrador retriever: “Oliver is loyal,” says John Evans, president and CEO. “He retrieves personalized information for me. He’s tireless, and he doesn’t make a mess. But he’s a stupid dog: If you throw two sticks, he’ll get con-

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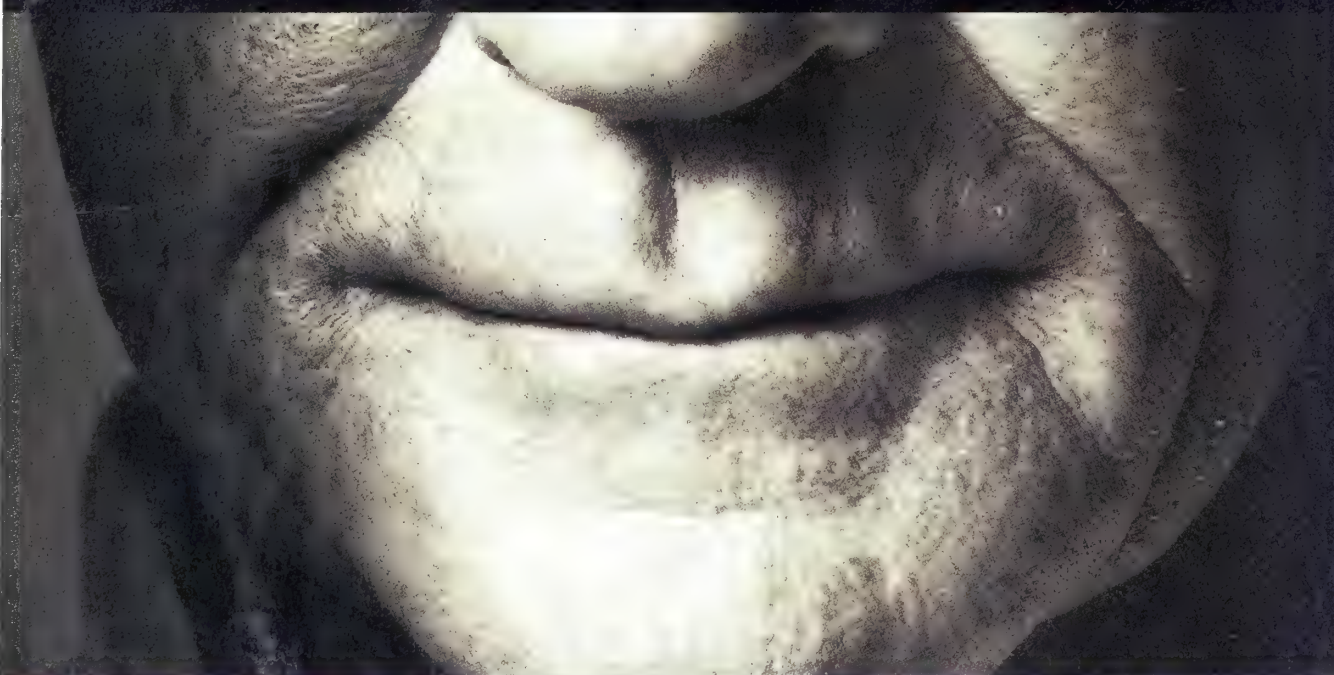


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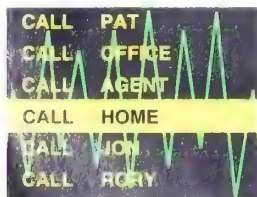
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IVASION F THE DATA SHRINKERS

mpressed digital signals could open the Information Superhighway, cheaply

The biggest obstacle to the vaunted multimedia revolution is digital obesity. That's the bloat that occurs when pictures, sound, and video are converted from their natural analog form into computer language for maturation or transmission. Analog minuscule become digital whales, because it takes eons of ones and zeroes to represent a single graceful analog wave. Other things being equal, a broadcast of a 30-second Winfrey that fits into one analog channel would require 45 channels if converted into digital language.

Unluckily, other things aren't equal. Compression, a rapidly developing branch of mathematics, is putting digital

diet. Computerized compression techniques remove the fat in a signal—is, redundant or less information—get rid of it. It is so well that digital signals can actually be made to take up less room than analog signals—much less. For example, the Hughes Electronics Corp. and Hub Broadcasting Inc. are to be operating satellites capable of broadcasting more than 100 channels of compressed digital television in a space that would handle just 32 uncompressed analog ones.

WONDER. To tell a long story short, compression is leading—for everyone—from videoconferencing and compact-disk encyclopedias to real-time video games. Maria Carey recordings on Sony Corp.'s new MiniDisc. Popularity is rooted in economics: Compression lowers the cost of

storage and transmission by packing data into a smaller space. Many new electronic products and services simply couldn't exist without it. An example: Playing an uncompressed two-hour movie on your computer's CD-ROM would require you to change disks 360 times. Compressed, two disks might suffice.

The potential cost savings from compression are mind-boggling, even if you count only the data-storage devices and telephone switches that won't have to be bought. If the capacity of copper wires can be significantly expanded through compression—to carry high-quality video, for example—the Information Superhighway will effectively extend to people's

doorsteps without the estimated \$150 billion expense of laying optical fibers to every home. Researchers connected with Stevens Institute of Technology recently claimed to have done exactly that, inventing a system that could send 10 channels two miles over existing wires.

HOT HYPE. Compression even has ramifications for scientific research. NASA estimates that by the year 2000, earth-viewing satellites will collect data amounting to a stack of magnetic tapes as high as the Washington Monument—every day. Saving and examining all that is no lark: It turns out that satellite data on the hole in the earth's protective ozone layer had been in U.S. archives for years

but went unnoticed until British researchers discovered the hole independently in 1985. Triada Ltd. in Ann Arbor, Mich., is developing a supercomputer-powered system that would make such patterns easier to spot amid the enormous swamps of data, while also compressing the data drastically.

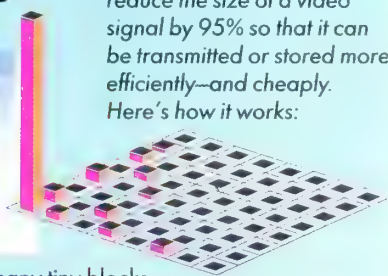
No wonder, then, that compression has become an obsession at some of the world's leading electronics companies. Last month, Philips Electronics and Compression Labs wielded their compression expertise to help win a deal potentially worth hundreds of millions of dollars to supply Bell Atlantic with set-top boxes for digital video-on-demand over fiber or copper wires. Bill Kennedy, senior vice-president of Philips Digital Videocommunications Systems, calls digital compression for video on demand "the

HOW TO PUT THE SQUEEZE ON MOVING PICTURES



1 COMPRESS EACH FRAME

MPEG divides a frame of video into many tiny blocks, each containing 64 picture elements (pixels). The patterns in each block are transformed into a set of numbers. A few of these numbers (bars) contain most of the important picture information and everything else is discarded.



MPEG compression is a computer method that can reduce the size of a video signal by 95% so that it can be transmitted or stored more efficiently—and cheaply. Here's how it works:



2 COMPRESS BETWEEN FRAMES

MPEG divides the video signal into three types of frames. Every 1/3 of a second, an intraframe picture (I) captures all the information in the compressed signal. A predicted frame (P) based on the previous I frame, and bidirectional frames (B) interpolated between the two, contain less data but preserve video quality.

3 REVERSE THE PROCESS

On playback, the restored frames lack some information but the eye is fooled into seeing detail that doesn't exist.

most significant breakthrough in television since color." If that sounds like hype, he isn't alone. Says Larry Thorpe, vice-president of Sony Advanced Systems, which makes professional video gear: "Compression is absolutely the enabling technology for our future."

Today, the leading standards in visual compression are JPEG (jay-peg), for still images, and its younger sibling, MPEG (em-peg), for moving images. They're based on the work of Baron Jean-Baptiste Joseph Fourier, a French mathematician, who found in 1822 that spatial patterns can be represented numerically through a mathematical transformation. After a Fourier transform, it's easier to locate parts of an image—such as strands of hair—that can be severely squeezed without noticeable distortion.

JPEG looks for ways to compress a single image. MPEG does that, then goes on to look for redundancies between neighboring images in a stream of video. Rather than digitally record each frame in its entirety, it records just a few frames in detail—and then describes others in terms of how they differ from the detailed ones. Both standards are named after the bodies that created

Already, standards disputes are in the courts: Stac Electronics is suing Microsoft for patent infringement

day, thanks to more efficient programming, LEAD Technologies has created a software-only version that has more features and sells for \$99.

There's a price to be paid for such pell-mell progress: a lack of uniformity. That's especially apparent in the field of still-image compression, where the main standard is JPEG. Software companies have rushed more than 30 "flavors" of JPEG onto the market, and unless the decoder in your computer recognizes the version that was used to compress a particular image, the result on your computer screen will be multimedia applesauce. Indeed, that is frequently the case.

There's some fear that the same thing could happen with MPEG. Here, the tiff

ment of 1 million digital set-top boxes until the end of 1994, citing uncertainty over the MPEG standard.

Fights over compression standards have even reached court. Stac Electronics, the leader in data compression for personal computers, is charging that Microsoft Corp.'s DoubleSpace technology infringes on Stac's patents. Microsoft has countersued. The trial, which is under way, is the first patent-infringement case against Microsoft ever to reach court—perhaps a measure of how hotly contested compression has become.

FRactal Ferns. The biggest battles, though, are in the research labs, where ever more advanced compression schemes are being developed. Two of the hottest areas are fractal compression and wavelet compression. Fractal compression schemes take advantage of the concept that things in the real world appear similar at different scales of magnification. For example, the spikes of a fern look like tiny copies of the fern itself. Instead of recording each spike separately, it's possible to store just one and then use it over and over to recreate the whole picture—say, for display on a computer screen. The insight of

WHO'S COMPRESSING, AND WHY

TYPE	DATA	AUDIO	STILL IMAGES	MOVING IMAGES
TYPICAL USES	Saving room on hard disks of personal computers	Storing more music on audio tapes and compact disks	Multimedia presentations, law enforcement	Videoconferencing, satellite broadcasting, HDTV
PLAYERS	Stac Electronics, Microsoft	Dolby Laboratories, Sony, Philips, Matsushita	Iterated Systems, C-Cube Microsystems, Eastman Kodak, Aware, Storm Technology	Compression Labs, PictureTel, Bellcore, General Instrument, AT&T, Thomson, Sarnoff, Philips, Sun Microsystems

them: the Joint Photographic Experts Group and the Motion Picture Experts Group. And both are "lossy" techniques, meaning that they permanently discard some information during compression. "Lossless" techniques, used for computer data, achieve less compression but preserve every bit of the original input.

MULTIMEDIA APPLESAUCE. Claude E. Shannon of AT&T Bell Laboratories helped advance compression in 1948 with his theory of how to maximize the use of communication pipelines. Still, the field was quiet until around five years ago, when prices fell and effectiveness rose thanks to faster digital signal-processing chips and more efficient mathematical formulas. Take LEAD Technologies Inc. of Charlotte, N.C. In early 1992, the company introduced a special circuit board for still-image compression and decompression that cost \$1,995. To-

comes down to a disagreement between video purveyors over bidirectional frames, or B frames (illustration). B frames efficiently preserve image detail by interpolating from detail contained in frames before and after them. But they add at least \$40 to the costs of digital TV set-top boxes.

Tele-Communications Inc., the nation's largest cable company, would like to limit the use of B frames in its digital-transmission system, which promises to deliver 500 channels to the home. TCI hopes to lower the cost of set-top boxes without hurting video quality. But other cable companies, including Time Warner Inc., are planning to handle B frames in their set-top boxes. If the schism isn't healed, some observers fear that TVs and VCRs with built-in decoders will require extra chips to work on all cable systems. TCI has delayed deploy-

ment of 1 million digital set-top boxes until the end of 1994, citing uncertainty over the MPEG standard.

Where self-similarity is not as evident, equally intriguing are wavelets, which compress an image as a whole, rather than block by block as with JPEG and MPEG. Aware Inc. of Cambridge, Mass., is a leader in wavelet compression for varied uses requiring high fidelity, such as transmitting medical images, storing music, and video editing.

Still other compression concepts are on the horizon. Meanwhile, however, less venturesome souls are happy adopting widely recognized formats, such as JPEG and MPEG. With standards more or less in place, prices falling, and the appetite for information in all forms seemingly insatiable, compression is expected to have a limitless future.

By Peter Coy in New York

Making a big world smaller.



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February 14, 1994

New York

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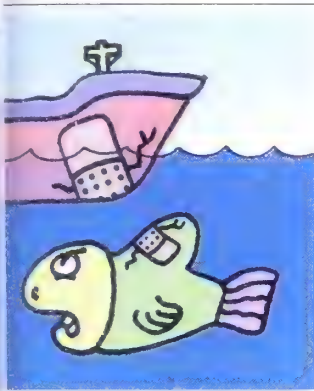
February 14, 1994

New York

Developments to Watch

BY EMILY T. SMITH

FIRST AID FOR RUPTURED TANKERS



Once an oil tanker's hull ruptures, there isn't much that can be done to avoid environmental damage. Responses are limited to dealing with the oil after the spill—containing the slick inside a floating corral, for instance, then skimming it off the water.

Scientists at Los Alamos National Laboratory, however, think there is a way to prevent

by plugging the hole to keep most of the oil inside the tanker. They're working on a way to slap a bandage on the leak from the outside, using patches that resemble an artist's mule stretched-canvas frames. Divers would cover the hole with a tough, waterproof fabric—bolting several frames together to span gaping ruptures—then secure the patch in place with huge, superpowerful magnets. An elastic gasket around the edges would block small leaks until the tanker could limp to port. The Los Alamos researchers believe that most could be plugged within an hour after the divers arrive, enough to prevent much of the leaking.

ELECTRONIC EYE COULD SOON GET A NEW MEANING

Massachusetts Institute of Technology researcher John L. Wyatt normally designs electronic eyes for robots. Several years ago, he wondered if a "vision" chip that de- codes processes light could help correct blindness caused by degeneration of the rod and cone cells in the eye. To receive light and chemically stimulate nerve cells that transmit images to the brain.

After five years of trying, Wyatt developed a chip small enough to sit against the retina, the light-sensitive membrane at the back of the eye. The chip grabs light and, via electrodes on its surface, sends out electrical impulses that rehearse chemical messages of the rod and cone cells. The impulses get stronger or weaker as the light does. Working with researchers at the Massachusetts Eye & Ear Infirmary, Wyatt hopes to test the chip in rabbits this spring. If the sensitive chip is implanted against the retina, theoretically it could allow the brain to perceive light and darkness. It's several years before the idea could be applied to people. For now, no one knows whether the chip could work for long periods in the eye.

ERING THE TOLLS ON THE INFO SUPERHIGHWAY

Most of the proposed Information Superhighway may not be so daunting after all. Micro Linear Corp., a small semiconductor company in San Jose, Calif., has developed a cheap chip that makes it possible to send high-speed Asynchronous Transfer Mode (ATM) signals, the latest format for sending digitized

video, audio, or data over the same lines. If existing phone lines can serve as on- and off-ramps to the infoway, there'll be no need to spend \$1,500 on optical-fiber links to each home.

Normally, ATM signals are too fast—at 155 megabits per second—for copper to handle. "Noise" stemming from the metal's electrical resistance contaminates the tightly packed signal, which quickly degrades into a meaningless fuzz. But Micro Linear's chip turns copper's resistance to advantage. By measuring how much strength the signal has lost at the receiving end, the chip can calculate how far the signal has traveled. The chip then adjusts a so-called equalization circuit that filters out the fuzz and restores the original signal. The cost? Just \$20 per chip.

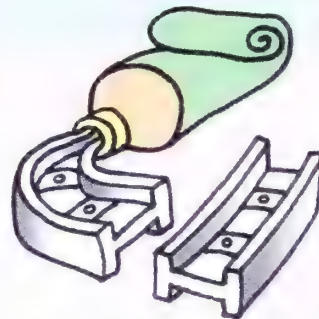
HOW TO MANUFACTURE IT SO IT'LL BE EASIER TO FIX

It's a sign of America's throwaway culture that consumers often toss out products costing hundreds of dollars because they are so expensive to repair. Geoffrey Boothroyd and Peter Dewhurst, professors of industrial engineering at the University of Rhode Island, think this trend has gone too far. They've decided it is time again to change the way products get designed. They did it once before, in the late 1980s, when they developed software for Design for Manufacturability (DFM) and Assembly (DFA) that continues to help companies slash production costs.

Design for Service (DFS) will be the next product from their company, Boothroyd Dewhurst Inc. in Wakefield, R.I. Slated for launch in April, DFS will point designers toward changes that would make a product easier to repair. This mainly involves assuring that the things most likely to need servicing are "in the outer layers of the onion," says Dewhurst. Eight members of an industrial consortium at the university, including DuPont, Ford, and Xerox, have ordered the \$14,500 software.

THIS BASEMENT INVENTOR KEEPS FORGING AHEAD

Some guys just can't quit. In the basement of his home in Huntington, N.Y., Grumman Corp. retiree Joseph J. Mele, 70, runs a business called JM Enterprise Co. that is staffed by volunteers, three of them ex-Grummanites over 70. The septuagenarians are developing a new way of forging aluminum and titanium. In Mele's Pullform system,



a piece of metal is pulled through a forge and shaped a little at a time instead of all at once. By focusing all its force in one small section instead of trying to shape an entire piece, Mele's forge requires less power than a conventional forge, comes closer to making the desired shape, and produces less scrap.

Bryant H. Walker, a manager of materials engineering at Pratt & Whitney Aircraft, says Pratt is too tight on money to fund Mele's effort but is backing his application for a Small Business Innovation Research grant from the Pentagon. Says Walker: "We have a lot of confidence in the process."



EDITED BY AMY DUNKIN

Insurance

ARE YOU PREPARED TO WEATHER A DISASTER?

Even though his \$600,000 home was two blocks from the earthquake epicenter in Northridge, Calif., and has been declared unsafe, Mike Kessler considers himself lucky. The steel executive purchased earthquake insurance in 1991 after remodeling the house. At the time, it seemed like a big nut to carry: The annual premium is \$1,300, and Kessler must pay the first 10% of damages. But now his insurer, Farmers Insurance Group, may pick up more than \$400,000 in repairs. "If we didn't have insurance," says Kessler, "we'd have to walk away from the house."

Thousands of other property owners in the Los Angeles area weren't as lucky. Only about one-third of the homes damaged by the Jan. 17 quake were adequately insured.

DON'T SKIMP. With meteorologists predicting an upswing in natural disasters during the next decade, the California experience underscores the need for all homeowners to review

their insurance coverage—before the next one strikes. Although basic policies cover losses from hurricanes, tornadoes, and firestorms, many homes still aren't properly insured—that is, folks just don't buy enough coverage. Special policies and riders guard against floods and earthquakes, and yes, the coverage is expensive. Yet experts say it is often worth the cost.

Insurers won't accept changes when a hurricane watch is in effect or when fires are blazing out of control. Nor will they write new earthquake coverage until the aftershocks have ceased. "It's kind of like asking someone to insure a burning building," says Jim Armitage, an insurance agent in South Pasadena, Calif.

If you live in a disaster-

prone area, you should crucial documents in a safe deposit box. Some financial planners also recommend setting aside money in a disaster-relief account.

DAMAGE CONTROL. Remember to keep abreast of tax implications. If you live in a federal disaster area, the Internal Revenue Service lets you deduct the loss in value of your home or the cost of improvements, whichever is greater. You'll need IRS Form 468. Hire an appraiser to confirm the decline, says Nadine Don Lee, a partner with Miller & Young in New York. A insurance reimbursement requires that loss, but structural weakness may not show up immediately, so your claim may linger for years.

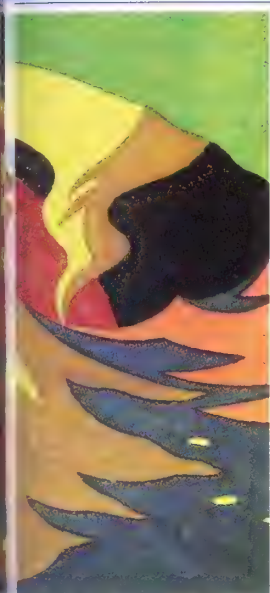
Updating coverage for windstorms is easy. Just ask your agent to make sure your existing policy covers the current value of your home. Miami homeowners were devastated by Hurricane Andrew because they hadn't added the co-

KEEPING HOMEOWNERS FROM QUAKING

The following are annual earthquake insurance premiums for frame houses built after 1950. The deductible is equal to 5% of the damage costs. Coverage for masonry homes and those built prior to 1950 will run more.

City	Annual Premium for Home Valued at		
	\$100,000	\$300,000	\$400,000
LOS ANGELES	\$169.00	\$361.00	\$457.00
SACRAMENTO	108.00	262.00	339.00
MEMPHIS	59.00	177.00	236.00
ST. LOUIS	34.00	102.00	136.00
CHICAGO	23.00	69.00	92.00
NEW YORK	30.00	90.00	120.00

DATA: STATE FARM INSURANCE CO.



vements made since purchased their policies. Insurance riders cover valuables such as jewelry and art. You should also record an inventory of your belongings with a camera or video, including contents of safes and drawers. New owners' insurance policies either the actual cash value or replacement costs of possessions. A TV bought 100 five years ago may be worth only \$300, and replace it would cost \$900. If you're insured for cash value, the insurer will pay the replacement cost policy which has slightly higher premiums, will reimburse you the full \$900.

FACTS. Other coverages are more complicated. Flood insurance is specifically excluded under all homeowner policies but is available through the Federal National Flood Insurance Program (800 462-7522). It pays for direct losses from flooding or erosion. Contents are covered for replacement value, contents or their current worth. The most Uncle Sam will pay for flood insurance is \$250,000 on a house, \$100,000 on the contents. In Missouri, annual premiums run about \$760. However, only about 20% of homeowners living in eligible flood plains have bought it. Lenders require the in-

surance. "A lot of people around here didn't have adequate coverage," says Robert Meers, an insurance agent in St. Charles, Mo. "The people who did buy flood coverage didn't include their personal property."

Regular homeowner policies exclude earthquake coverage in every state. In California, it is sold separately, but elsewhere it's attached as a rider to the regular policy. Insurers are required to offer it to California residents every two years, but consumers do not have to purchase it. There's talk in Washington of making earthquake coverage a federal program similar to flood insurance.

It's no surprise that earthquake coverage is most expensive in California. Deductibles typically run 10%, compared with 5% in Missouri, the second-most likely place to get struck. In the rest of the country they typically range from 2% to 5%. Premiums will be about 50% less for frame houses than for brick structures. In California, earthquake policies normally place a limit on what they will pay for all losses combined, including structural damage, personal property, and living expenses. Elsewhere, this coverage has separate limits for each category. For example, typical policies in New York limit the structural damage payout to 20% of the worth of the house.

Even if you don't buy earthquake coverage, your homeowner policy will pay to repair damage caused by fires, explosions, and broken glass. Damage by looters or stolen property is also covered under most standard plans.

No matter what disaster you're protecting against, make sure your policy covers living expenses. If you can't stay at home, insurers will pay for lodging, meals, and storage. Major catastrophes don't come along often. But when they do, it's a relief to know you've prepared for the worst. *Chris Roush*

Snowboarding

FOR A REAL LIFT, STRAP THIS TO YOUR FEET

You're having a nice leisurely run down your favorite ski trail, when suddenly you're cut off by one of those swooshing snowboarders. "Damn crazy teenager," you snarl to yourself—until you catch up with the interloper at the lift and find out that his or her hair has considerable gray.

Yes, that's right. More and more adults are embracing the fastest-growing winter sport. Where snowboarding was once the province of teenage, mostly male "shredders" in grunge out-

Instructors say it's often easier to get the hang of it if you've never tried skiing. But learning can be risky. Beginners are more likely to fracture a bone than experts are—just the opposite of skiing. And the most vulnerable point is the wrist: Boarders are seven times as likely to break one as skiers, because they tend to use their hands to break a fall. So if you try this sport, wear wrist guards.

Skiers making the switch usually prefer



fits, now about 25% of board fans are over 25 and some 30% are women. Unlike the teens, many of whom had never skied, older boarders tend to be former skiers who switched because of age, boredom, or both.

WRIST GUARDS. Just ask Al Preliasco, a 45-year-old computer engineer from Marlboro, Mass., who took up snowboarding three years ago. "The thing I always liked about skiing was the carving turns, but it got tougher as I got older," he says. Preliasco believes snowboarding is easier to learn, adding, "it's all about turns—you can't go straight." That's because you stand sideways, as you would on a skateboard. Turns are executed by leaning backward or forward.

stiff, so-called alpine boards—the best for carving turns. Teenagers like softer freestyle boards that let them do spins and other stunts. Both cost from \$300 to \$700, with an additional \$200 to \$400 for proper boots.

Not everyone is pleased with the boarding craze. Skiers complain that boarders cut them off, and several ski areas, most of them in Utah, have banned snowboards. But 90% of resorts allow them, and many are building special snowboard areas. The industry is hoping that, as boarders continue to age, they will learn some respect. After all, teenage skiers can be just as reckless as teenage boarders, so it may be the demographics, not the mode, that's ticking skiers off. *Catherine Arnst*

Credit

CREDIT-RATING AGENCIES RATE A BIT OF CREDIT

In the past three years, credit bureaus have done their best to improve their record. They have tried to reduce errors through increased automation and better software. And they have tried to improve consumer relations with easy-to-read reports, 800 numbers, and faster response to complaints. It's still not easy to clear up a mistake, but the industry's new dispute-resolution process should make dealing with credit bureaus less of a burden.

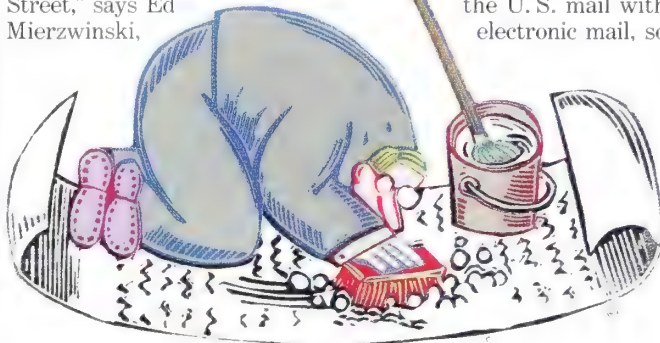
You should check your record once a year for accuracy and completeness. For a copy of your report, call one of the national credit bureaus, such as TRW (800 682-7654), Equifax (800 685-1111), or

Trans Union (216 779-7200). If you've been denied credit, you're entitled to a free copy. Otherwise, most agencies charge a fee of about \$8. TRW will send a free copy in "plain English" once a year.

If you find mistakes, file a dispute form, and wait for a response. "But be prepared to live in Nightmare on Credit Street," says Ed Mierzwinski,

financial Education (NCFE) publishes the *Do-It-Yourself Credit Repair and Improvement Guide*. Call 800 837-6729 to order this \$10, 44-page book.

E-MAIL REPLY. Credit bureaus hope their new dispute-verification system will smooth out the process and appease critics. The system replaces the U.S. mail with electronic mail, so



consumer advocate at the U.S. Public Interest Research Group. Response is slow, and errors often reappear after they have been corrected, he says. For help communicating with credit bureaus, the non-profit National Center for Fi-

nancial Education (NCFE) publishes the *Do-It-Yourself Credit Repair and Improvement Guide*. Call 800 837-6729 to order this \$10, 44-page book. The system replaces the U.S. mail with electronic mail, so

pro-consumer reform is expected out of Congress, v is considering bills requ bureaus to offer free rep and do more to avoid er

Even if your report is rect, it may contain info tion you didn't know w hurt your ability to get c For example, lenders lo all your available credit just the amount you act owe—when deciding wh you can handle more c Before applying for a consider canceling cards don't use—so you won't overextended. And ask t suer to add the line, "ac closed due to consume quest" to your report. way, it won't seem as i lender revoked your cre

Too many application new credit might sign lenders that you are "c thirsty" or perhaps ne bankruptcy, says Paul ard, the NCFE's director c ucation. But this alone be too damaging as lo the rest of your repo clean. Amey

Smart Money

THE COMING SQUEEZE ON 401(k) PLANS

Everyone is on your case to stash the maximum amount allowable in your 401(k). With taxes rising, all that deferred income becomes a lot more desirable. But the same bill that lifted tax rates could also seriously curtail the amount of income you can contribute to your 401(k). And as more employees realize this, the pressure will be on companies to provide nonqualified 401(k) plans to make up the difference.

Ironically, those most affected will not be the highest-paid employees but mid-level managers earning from \$66,000 to \$150,000 a year, says Robert Scharff, a principal with the Todd Organization, a benefits consulting firm in St. Louis.

PROPER BALANCE. The pinch results from the convergence of three rules governing 401(k)s. First, the maximum you can set aside is limited to \$9,240 a year, up from \$8,994 in 1993. Second, to prevent discrimination, the

average percentage saved by highly compensated workers—anyone making more than \$66,000—can only be two points higher than the average of those earning below that cutoff at the same

than 6%. Third, the maximum salary you can use in figuring your 401(k) percentage dropped from \$235,000 to \$150,000.

Because top executives will now be basing their contributions on a smaller portion of their salary (\$150,000 vs. \$235,000), they will be salting away a higher percentage than they used to. So to maintain the proper companywide balance, the percentage allowed for middle-level earners will have to be lowered. That means that they may fall far short of the \$9,240 maximum.

One solution is for your company to set up a nonqualified 401(k). This plan allows you to set aside the excess amount in pretax dollars and

let it grow tax-free until retire. The catch is that like a regular 401(k), there's no guarantee that you'll receive the money when you retire. If the company or management changes hands, the funds will be at risk—that is, unless your employer takes the additional step of arranging to set up a special trust to protect against such possibilities.

If your employer doesn't have a nonqualified 401(k), you can urge him to get by "bellyaching" to your human resources, or benefits department, says Robert Scharff, a principal at Wil Mercer, a benefits consultant. Many big companies such as AlliedSignal, Campbell Soup, and Fleet Financial Group are already offering them. "Any company with a 401(k) plan will be looking at this over the next year or so," says Scharff. If yours isn't one of them, you might want to give your benefits administrator a nudge. Pam

A NONQUALIFIED PLAN ALLOWS YOU TO SET ASIDE FUNDS YOU CAN'T PUT IN YOUR 401(k)

company. Thus, if all the lower-paid employees put away an average of 4% of their salaries, the higher-paid group's average couldn't be more

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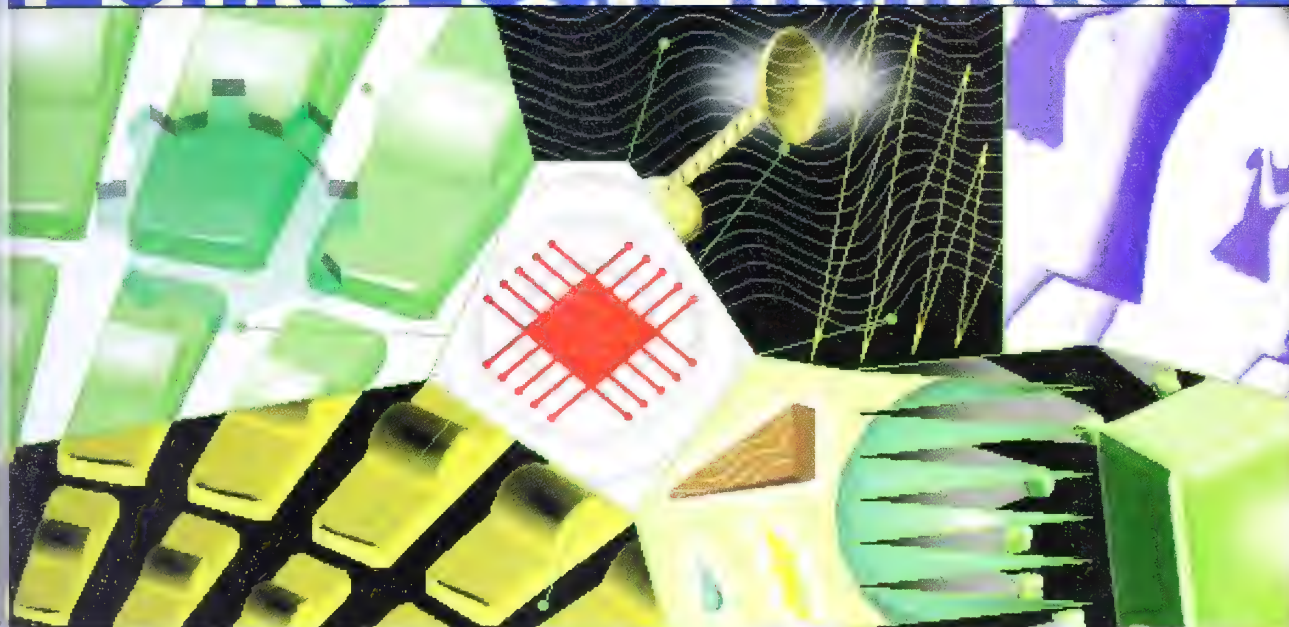


Illustration by John Hersey. Assen in BusinessWeek, January 11, 1994 Issue

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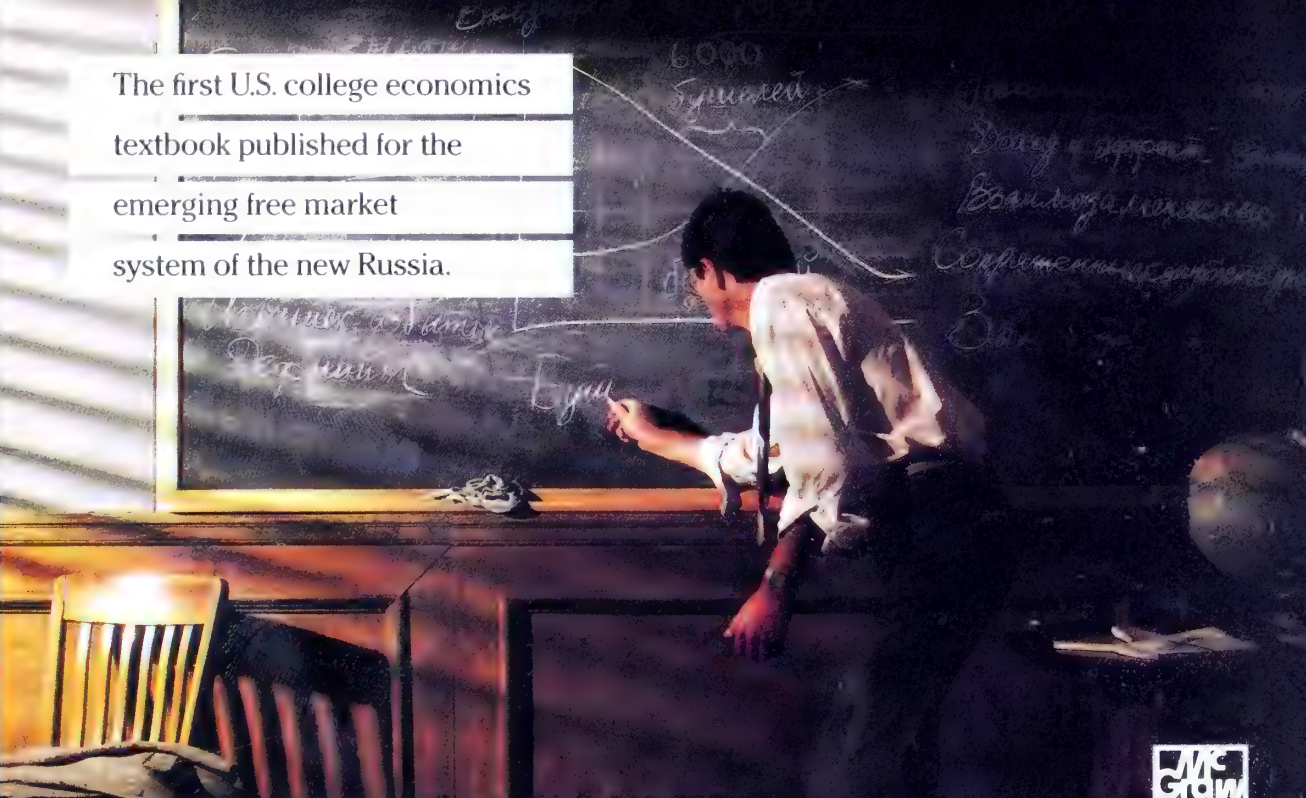
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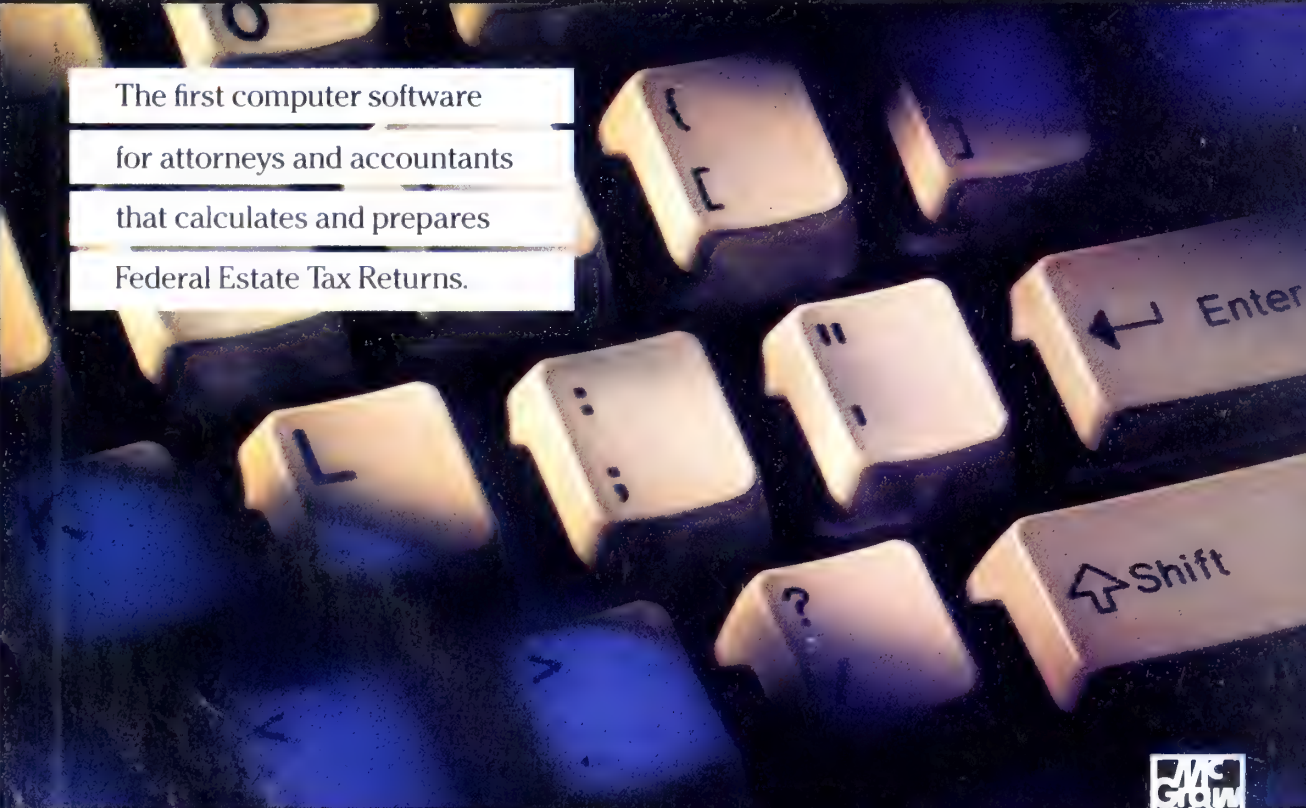
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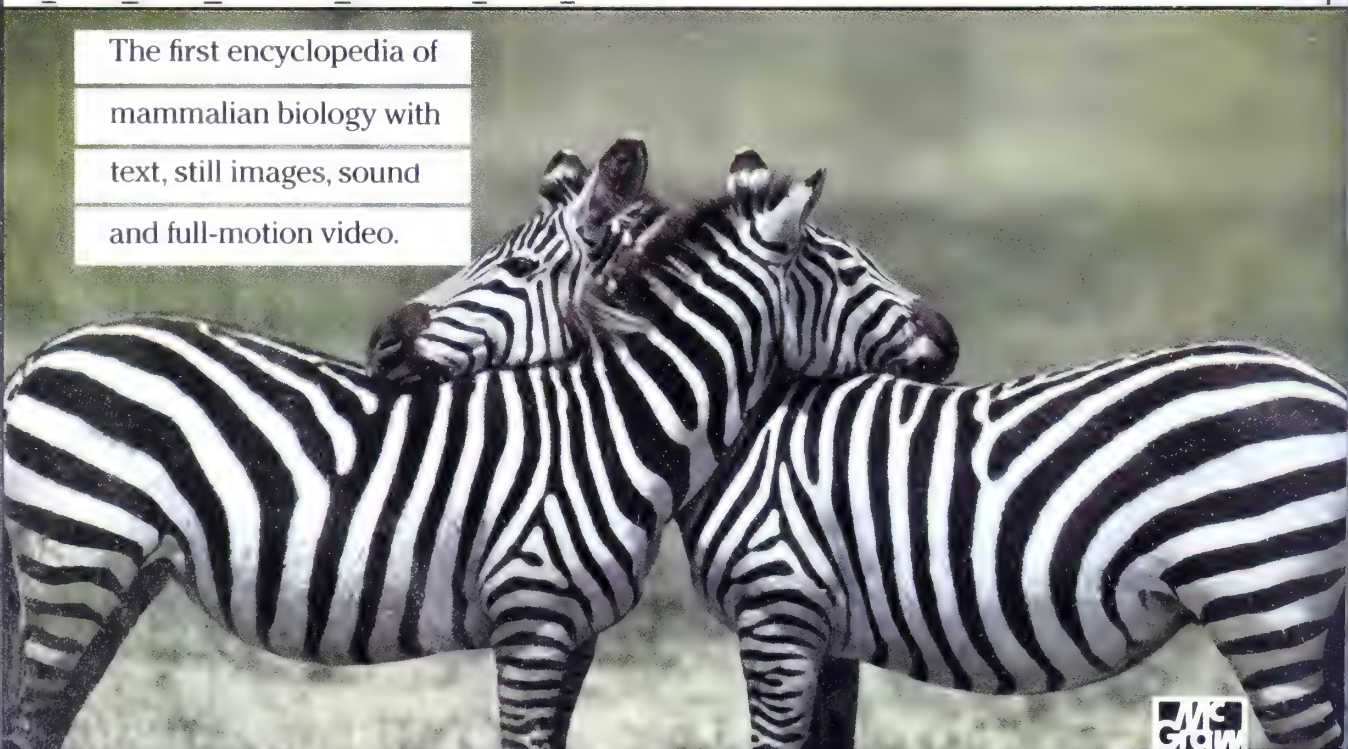


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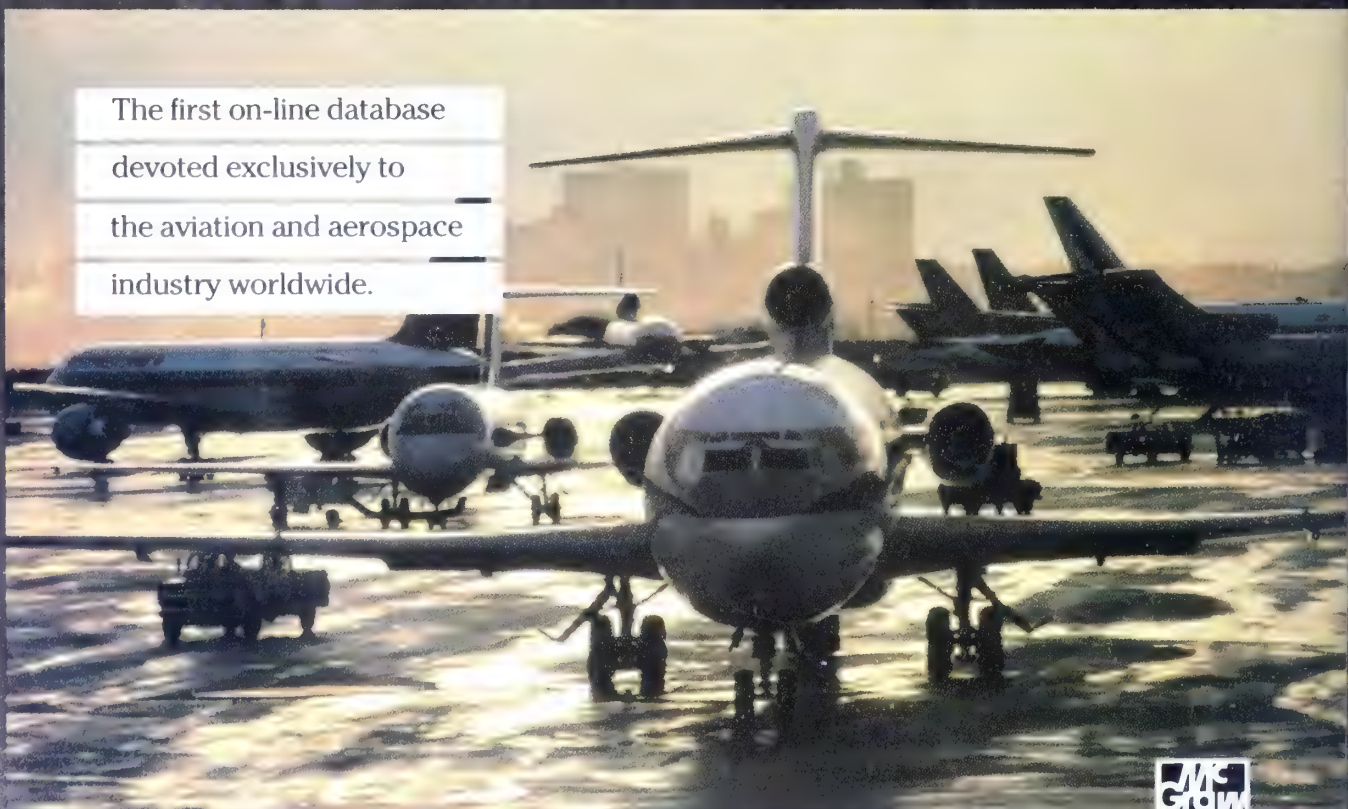


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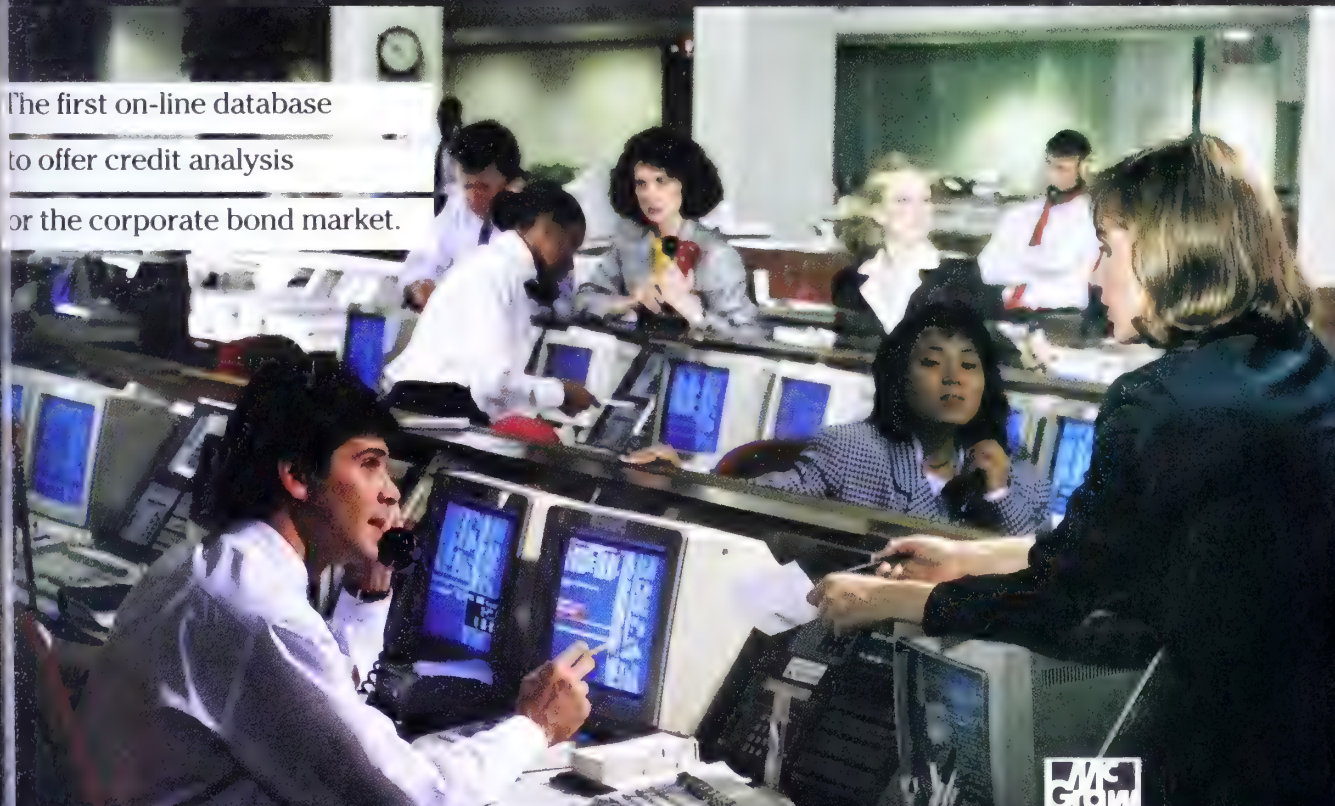
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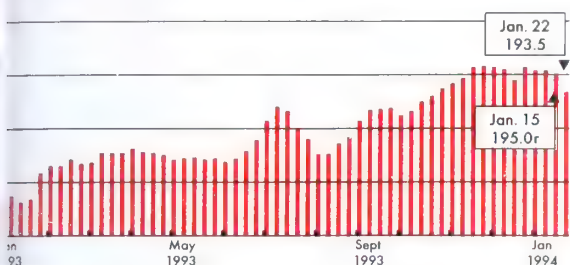
*Morningstar proprietary ratings reflect historical risk-adjusted performance as of November 30, 1993. The ratings are subject to change every month. Morningstar ratings are calculated from the funds' three-, five-, and 10-year average annual returns including loads, if appropriate, and a risk factor that reflects fund performance relative to three-month Treasury bill monthly returns. Ten percent of the funds in an asset class receive five stars and 22.5% receive four stars. For more complete information, including management fees and expenses, call for a free prospectus. Read it carefully before you invest or send money. Fidelity reserves the right to change the funds available with no transaction fees and reinstate the fees on any funds. Fidelity reserves the right to charge a transaction fee if you make five or more short-term redemptions (sales of shares held less than six months) on no-transaction fee funds in a twelve month period. If you purchased a no-load fund and paid a transaction fee, you will be obligated to pay a transaction fee upon its sale. This program is subject to change without notice. Share prices (except for money market funds), yields and returns will vary. You may have a gain or loss when you sell your shares. Past performance is no guarantee of future results. The Berger fund family may charge 12b-1 fees in excess of 0.25%. Fidelity Brokerage Services, Inc. Member NYSE, SIPC.

BusinessWeek Index

PRODUCTION

Change from last week: -0.8%
Change from last year: 5.4%

1967=100 (four-week moving average)

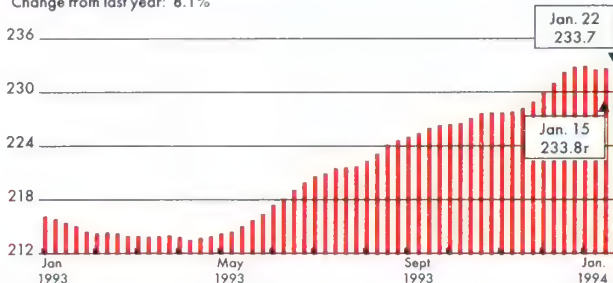


The production index declined during the week ended Jan. 22 as observation of Luther King's birthday and the severe weather cut into production. Seasonally adjusted output of steel, autos, trucks, coal, and rail-freight traffic fell. Lumber and oil refining output increased, and electric power hit a winter record high. Data for paper and paperboard were unavailable. Before calculation of the four-week average, the index fell to 188.9, from 192.1

BW production index copyright 1994 by McGraw-Hill Inc

LEADING

Change from last week: 0%
Change from last year: 8.1%



The leading index was little changed in the week ended Jan. 22, but several indicators point to a decline later on. In the latest week, bond yields and the number of business failures were up, and the growth of real estate loans was down sharply. The growth rates of M2 and materials prices improved, while stock prices were basically flat. As a result, before calculation of the four-week moving average, the index fell sharply to 232.8, from 235.3.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(1/29) thous. of net tons	1,800	1,667#	2.1
(1/29) units	147,126	84,183r#	12.0
(1/29) units	120,958	64,837r#	19.5
ELECTRIC POWER (1/29) millions of kilowatt-hours	61,008	67,707#	2.4
OIL REFINING (1/29) thous. of bbl./day	13,018	13,292#	0.0
(1/22) thous. of net tons	15,409#	19,694	-18.8
STEEL (1/22) thous. of tons	NA#	NA	NA
(1/22) thous. of tons	NA#	NA	NA
RAIL (1/22) millions of ft.	471.7#	500.3	3.0
TRUCKS (1/22) billions of ton-miles	17.2#	21.0	-17.7

American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SPPA, Association of American Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
YEN (2/2)	108	110	125
MARK (2/2)	1.73	1.75	1.66
POUND (2/2)	1.49	1.49	1.45
FRANC (2/2)	5.88	5.93	5.61
CAN. DOLLAR (2/2)	1.33	1.31	1.26
FRANC (2/2)	1.45	1.47	1.53
NEW PESO (2/2) ²	3.105	3.106	3.101

Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
(2/2) \$/troy oz.	384.700	383.000	17.2
CRAP (2/1) #1 heavy, \$/ton	139.50	139.50	34.8
COFFEE (2/1) index, 1967=100	219.6	220.0	10.9
(1/29) ¢/lb.	90.3	89.8	-12.9
COFFEE (1/29) ¢/lb.	58.5	58.0	5.4
(1/29) #2 hard, \$/bu.	3.87	3.97	-2.5
(1/29) strict low middling 1-1/16 in., ¢/lb.	69.39	65.83	31.2

London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Research City market, Memphis market

† Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. ‡ Iron Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/28) S&P 500	474.37	474.31	8.0
CORPORATE BOND YIELD, Aaa (1/28)	6.91%	6.92%	-11.9
INDUSTRIAL MATERIALS PRICES (1/28)	95.9	95.2	-2.9
BUSINESS FAILURES (1/21)	292	272r	-18.2
REAL ESTATE LOANS (1/19) billions	\$419.5	\$423.6r	1.6
MONEY SUPPLY, M2 (1/17) billions	\$3,522.9	\$3,515.5r	1.9
INITIAL CLAIMS, UNEMPLOYMENT (1/15) thous.	366	357	0.7

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
12 LEADING INDICATORS COMPOSITE (Dec.) index	100.3	99.6r	1.1
CONSTR. SPENDING (Dec.) annual rate, billions	\$513.1	\$500.0r	12.7
PERSONAL INCOME (Dec.) annual rate, billions	\$5,541.7	\$5,508.9r	0.6
CONSUMER SPENDING (Dec.) billions	\$4,505.4	\$4,482.6r	5.2

Sources: Commerce Dept., Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/17)	\$1,135.0	\$1,130.5r	9.8
BANKS' BUSINESS LOANS (1/19)	278.8	277.1r	-1.2
FREE RESERVES (1/19)	1,618r	1,125r	57.4
NONFINANCIAL COMMERCIAL PAPER (1/19)	154.4	152.6	5.4

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (2/1)	3.25%	3.04%	3.15%
PRIME (2/2)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (2/1)	3.17	3.15	3.21
CERTIFICATES OF DEPOSIT 3-MONTH (2/2)	3.16	3.11	3.14
EURODOLLAR 3-MONTH (1/28)	3.13	3.13	3.18

Sources: Federal Reserve, First Boston

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Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Advanced Micro Devices **28**
Aetna Life & Casualty **32**
Airbus **26**
ALC Communications **108**
AlliedSignal **122**
Allstate Insurance **52**
America First Financial **31**
American Barrick Resources **72**
Amoco **6**
Apple Computer **6, 38, 110**
Arab Banking **48**
AT&T **28, 110, 115**
ATM Cardpay **105**
Aware **115**

B

Banc One **105**
BankAmerica **26, 31, 108**
BBDO **64**
BBI Investment Group **26**
Bell Atlantic **28, 115**
Berger **100, 72**
BMW **42, 44**
Boeing **26**
Borland International **8**
British Aerospace **42, 44**
Brunswick **28**
BSN **108**
Buffalo Rock **64**
Burger King **105**
Burlington Northern **28**

C

Cable & Wireless **108**
Calgary Stampers **71**
Campbell Soup **122**
Canadian Football League **71**
Carter Hawley Hale Stores **31**
CBS **108**
CGM Capital Development **72**
Chase Manhattan Bank **105**
China Everbright **48**
China International Trust & Investment **48**
Chiquita Brands **52**
CIGNA **32**
Cineplex Odeon **57**
Citibank **26**
Clark Oil & Refining **72**
Coca-Cola **26, 64**
CompUSA **38**
Connecticut Mutual Total Return **72**
Continental Bank **31, 52, 108**
CS First Boston **8, 28**

CSX 28

Cybox **108**

D

Data General **8**
Deacons **26**
Dean Witter **20, 72**
De Beers **30**
Deluxe **105**
Diamant Boat **30**
Digital Equipment **8**
Dreyfus Strategic World Investors **72**
Duff & Phelps **52**
DuPont **119**

E

Eastman Kodak **26, 38**
EMI **32**
Eon **105**
Ernst & Young **120**
ESPN **71**

F

Fahenstock **108**
Farmers Insurance Group **120**
Fidelity Asset Manager **72**
Fidelity Blue Chip Growth **72**
Fidelity Contrafund **72**
Fidelity Emerging Markets **72**
Fidelity Magellan **72**
First Boston **8**
First Manhattan Consulting Group **105**
Fleet Financial Group **122**
Ford **28, 119**
France Telecom Communications **108**
Franklin Income **72**
Freightliner **28, 42**
Fulton Group **108**

G

GE **26, 30, 38, 108**
Gemini Consulting **105**
General Magic **110**
Gerber Products **108**
GM **38, 42**
GM Hughes Electronics **115**
Goldman Sachs **29, 46**
Great American Communications **52**

H

Harbour Town Golf Links **8**
Hewlett-Packard **110**
Honda **42, 44**
Horsham **72**
Hubbard Broadcasting **115**
Hyundai **51**

I

IBM **8, 26, 38, 72**
ICN Pharmaceuticals **38**
Intel **28, 38**
Intuit **105**
Iterated Systems **115**

K

Keiyo **46**
Kemper **52**

L

Las Vegas Posse **71**
LEAD Technologies **115**
Lehman Brothers **60**
Lexington Worldwide Emerging Markets **72**
Lindner Dividend **72**
Lipper Analytical **72**
Live Entertainment of Canada **57**
Lockheed **36**
Long-Term Capital Management **29**
Lucky Stores **105**
Lumex **108**

M

Mark Solutions **108**
Mars **26**
MasterCard International **105**
McDonnell Douglas **36**
McGraw-Hill **24**
MCI Communications **28**
McKinsey **20**
Mead Data Central **110**
Mercedes-Benz **42**
Merck **15**
Meridian Bank **105**
Merrill Lynch **8, 20, 60**
Micro Linear **119**
Microsoft **6, 8, 115**
Midlantic **108**
Mobil **6, 26, 38**
Morgan Stanley **8, 48**
Morningstar **72**
Motorola **26, 28, 38, 110**
Mr. Max **46**

N

NBC **108**
Nestlé **108**
New Dartmouth Bank **12**
News Electronic Data **110**
Nielsen Marketing Research **64**
Nissan **42**
Nucor **28**
Ocean Spray **64**
Oppenheimer Main St. Income & Growth **72**
Owens-Corning **30**

O

Pacific Bell **28**
PaineWebber **34, 108**
Paramount Communications **32, 108**
Pebble Beach **8**
PepsiCo **64**

Pfizer 34

Philips Electronics **115**
Provident Bancorp **57**
Pulaski Furniture **28**

Q

Quaker Oats **64, 108**
QVC Network **32**

R

Roche Holdings **15**
Ronald Braco **105**
Rover **42, 44**
Russin & Vecchi **26**

S

Sacramento Gold Miners **71**
Salomon Brothers **29**
Sanford C. Bernstein SBSF **72**
Schröder Münchmey Hengst **42**
Schwinn **31**
Scudder Global **72**
Security Pacific **31**
S.G. Warburg **32**
Shawmut National **115**
Shubert Organization Sony **32, 110, 115**
Spectrum Information Technologies **6**
Stac Electronics **115**
Stein Roe & Farnham Storage Technology

T

Tele-Communications Texas Instruments **28**
Thomson Opportunity Time Warner **32, 108**
Toshiba **46**
Tour **18, 8**
Toyota **42**
Triada **115**
Twentieth Century U Investors **72**

U

Unilever **64, 108**
Unisys **72**
United Technologies USAir **72**
U.S. Robotics **28**

V

VATICO **26**
Vertex Pharmaceutical Viacom **32**
Volkswagen **38, 42**

W

Wabash National Walt Disney **38, 108**
WMX Technologies

X

Xerox **110, 119**
Xinxing Pipes **48**

Z

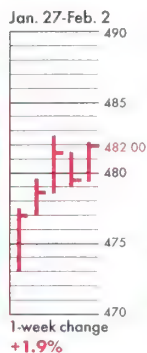
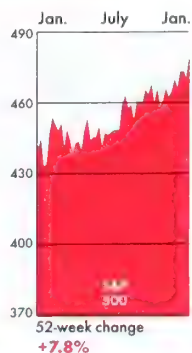
Zachs Investment Research **8**

Investment Figures of the Week

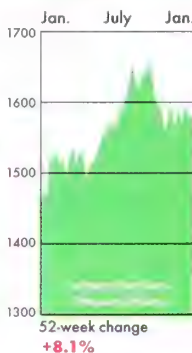
CURRENCY

Jones industrials rocketed to 4000 mark, and on the S&P 500 hit a new high. Small- and mid-cap funds for real action, look for foreign stock portfolio to rise 6.52% for the week. On Jan. 31, the S&P 500 hit up 1,472 points, nearly as much as the last four weeks have added for overseas investors. Among mutual funds for the week, one invested in Britain, one in Japan, and one in Latin

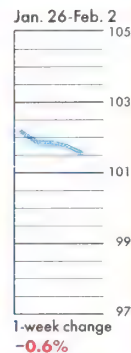
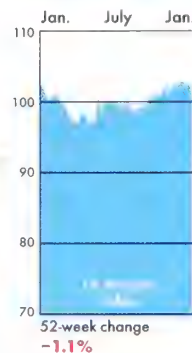
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

SECTORS	Latest	% change Week	52-week
INDUSTRIALS	3975.5	1.7	17.8
COMPANIES (S&P MidCap Index)	184.0	2.8	11.2
COMPANIES (Russell 2000)	267.6	1.8	15.4
COMPANIES (Russell 3000)	278.4	1.9	8.4

FINANCIAL STOCKS	Latest	% change (local currency) Week	52-week
FINANCIAL TIMES 100)	3520.3	2.5	22.5
Nikkei INDEX)	20,250.0	5.8	17.6
TSE COMPOSITE)	4573.4	2.5	36.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.13%	2.98%	2.98%
30-YEAR TREASURY BOND YIELD	6.28%	6.31%	7.21%
S&P 500 DIVIDEND YIELD	2.43%	2.57%	2.80%
S&P 500 PRICE/EARNINGS RATIO	22.6	22.5	22.0

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	463.7	462.6	Positive
Stocks above 26-week moving average	61.5%	56.8%	Neutral
Speculative sentiment: Put/call ratio	0.38	0.39	Neutral
Insider sentiment: Vickers sell/buy ratio	1.65	1.68	Positive

INDUSTRY GROUPS

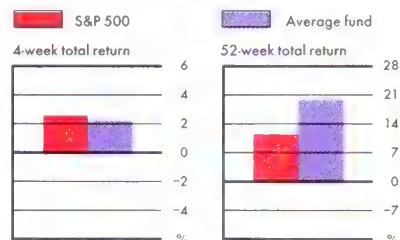
WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
CONTAINERS	15.3	2.5	STONE CONTAINER	58.0	0.0	16
LOGGING	14.7	7.2	ROADWAY SERVICES	16.4	0.2	70 1/8
MANAGEMENT	13.9	54.8	COMMUNITY PSYCHIATRIC CENTERS	23.7	65.9	17 7/8
MINING	13.3	12.0	ALCAN ALUMINIUM	15.3	30.7	24 1/2
TRANSPORTATION	11.4	15.9	PHELPS DODGE	16.0	11.4	56 1/4

WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
MINING	-5.2	-3.3	COCA-COLA	-6.7	-2.1	41 1/2
GAS DRILLING	-4.9	20.5	ROWAN	-8.5	18.2	8 1/8
IND GLASS CONTAINERS	-4.9	-3.9	BALL	-11.4	-20.5	26 1/8
MINING	-4.4	87.0	NEWMONT MINING	-6.9	45.6	55 1/2
MINING	-3.5	15.8	RUBBERMAID	-11.8	-2.0	30 7/8

MUTUAL FUNDS

4-week total return	%	LAGGARDS Four-week total return	%
UNITED KINGDOM SMALL COMPANY	12.6	LEXINGTON STRATEGIC INVESTMENTS	-14.9
JAPANESE SMALL COMPANY	11.8	UNITED SERVICES GOLD	-12.2
EMERGING LATIN AMERICA	10.1	FIDELITY SOUTHEAST ASIA	-8.5

52-week total return	%	52-week total return	%
UNITED KINGDOM SMALL COMPANY	188.0	STEADMAN OCEANOGRAPHIC TECHNOLOGY	-12.8
JAPANESE SMALL COMPANY	104.2	PILGRIM CORPORATE UTILITIES	-12.1
EMERGING LATIN AMERICA	102.0	FORUM INVESTORS STOCK	-9.0



RELATIVE PORTFOLIOS

Portfolio	Value	% Change
Foreign stocks	\$14,878	+6.52%
Treasury bonds	\$11,862	+0.20%
Gold	\$11,574	-0.09%
U.S. stocks	\$10,949	+1.85%
Money market fund	\$10,209	+0.04%

is page are as of market close Wednesday, Feb. 2, 1994, unless otherwise indicated. s include S&P 500 companies only; performance and share prices are as of market close

Feb. 1. Mutual fund returns are as of Jan. 28. Relative portfolios are valued as of Feb. 1. A more detailed explanation of this page is available on request.

FED 'SNUGGING' WON'T SPOIL THE PARTY

Federal Reserve Board Chairman William McChesney Martin was fond of saying that it is the Fed's job to take the punch bowl away just as the party really gets going. He argued that there was an inevitable trade-off between economic growth and inflation. So, he said, the Fed must raise interest rates when the economy shows signs of heating up in order to cool it down—abruptly, if necessary—to stop inflation.

But sometimes, when the economic moon and stars are in alignment, taking the punch bowl away at the right moment actually prolongs the party. Raising short-term interest rates can calm bond markets (and even lower long-term rates), boost equity markets, and extend an economic recovery. This is one of those times.

"Snuggling" up short rates by 25 to 50 basis points, as Fed Chairman Alan Greenspan suggested he was prepared to do at recent congressional hearings, is probably the best thing that can happen to the economy right now. It will keep the bond market vigilantes at bay. By showing Fed determination, the minihike will act to extend the recovery through 1995 into 1996 and perhaps beyond. Killing off inflationary expectations today will pave the way toward fuller employment tomorrow. For there is more to fear from inflationary expectations than from real inflation.

This is one of those rare moments in economic history where high growth rates can gracefully coexist with low inflation. This has happened in the U. S. before: in the late 19th cen-

tury, when big productivity gains and rapid expansion of v markets led to a happy combination of strong econ growth and price stability.

The same could be true today. The triumph of capita has dramatically expanded the world market economy altered the growth-inflation equation. Price disinflation i der way as new supplies of capital, goods, and labor incr competitive pressures on U. S. companies, making ther sessive about cost-cutting. A capital-spending boom is b ing productivity. And technological innovation is driving c the cost of all digital products.

At the same time, growth is particularly strong, d by the same forces putting downward pressures on p Satisfying the demands of a new global middle class is erating all-time-high exports for U. S. corporations. Buil a new, entertainment-driven Information Superhighway is ing the entire U. S. high-tech industry into high gear.

This unusual alignment of global and technological c tions means that the current economic growth potent the country is higher than previously estimated. The is able to grow significantly faster than 2.5% without g ating inflation. This will be true unless, sometime in ture, Japan, Europe, and Eastern Europe join the U. S. na, and Latin America in a synchronous expansion. Until if worries about inflation can be conquered by Fed snug America can proceed safely down the road of strong ecn ic growth.

MUTUAL FUNDS NEED TIGHTER RULES

It doesn't get much better than this. Mutual-fund investors, who plunked down \$128.2 billion last year for equity portfolios, racked up an average of 20% total return—doubling the Standard & Poor's 500-stock index and far surpassing what they could earn with certificates of deposit. So happy are customers that they now entrust \$2 trillion of their money to funds. With the Dow heading toward 4000 and interest rates remaining low, that figure is sure to soar.

But there have been some disquieting revelations about how some mutual-fund managers behave. To the surprise of many new investors, it turns out that fund managers are permitted to trade for their own accounts while managing publicly owned portfolios. In at least one case, it appears that a fund manager got into a private placement, thanks to the favors of a stock promoter. The same promoter turned out to be offering stock to the manager's fund.

That mutual-fund manager was accused of violating the fund's rules on personal trading. Another resigned to move to another fund after an internal investigation cleared him. It is now clear that what is permitted varies from one fund group to another. Worse, very little information is made available to the investor.

The issue is not a legal one. Such trading practices as running, whereby managers buy stock for their own accounts and then buy it for the fund, pushing up the price of their own equities, are illegal. But the gray areas abound and need for both transparency and close monitoring.

One way for the mutual-fund industry to retain its squeaky-clean image is to forbid its managers from trading for themselves. Tie their compensation to the performance of the portfolios. If they want to participate personally in the market, let them buy the same funds their customers do—on the same terms.

A number of mutual-fund groups actively encourage their managers to trade for themselves. They want them to have a good "feel" for the markets. For these funds, full disclosure and close monitoring by a third party of all personal trades and investments is in order. Indeed, personal trading by managers that overlap with the fund's investments should be disclosed to the public owners of the mutual funds in a timely fashion.

The mutual-fund industry has been a glorious financial success story for millions. It should strive to keep their success by taking immediate steps to retain its Mr. Clean image.

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A DHL delivery boat, filled with cardboard boxes and two DHL employees in red and white uniforms, is navigating a narrow Venetian canal. In the background, a gondolier in a traditional hat and dark clothing is visible. The scene is set under a stone bridge with a decorative balustrade, with historic buildings lining the canal banks.

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BusinessWeek

MARCH 21, 1994

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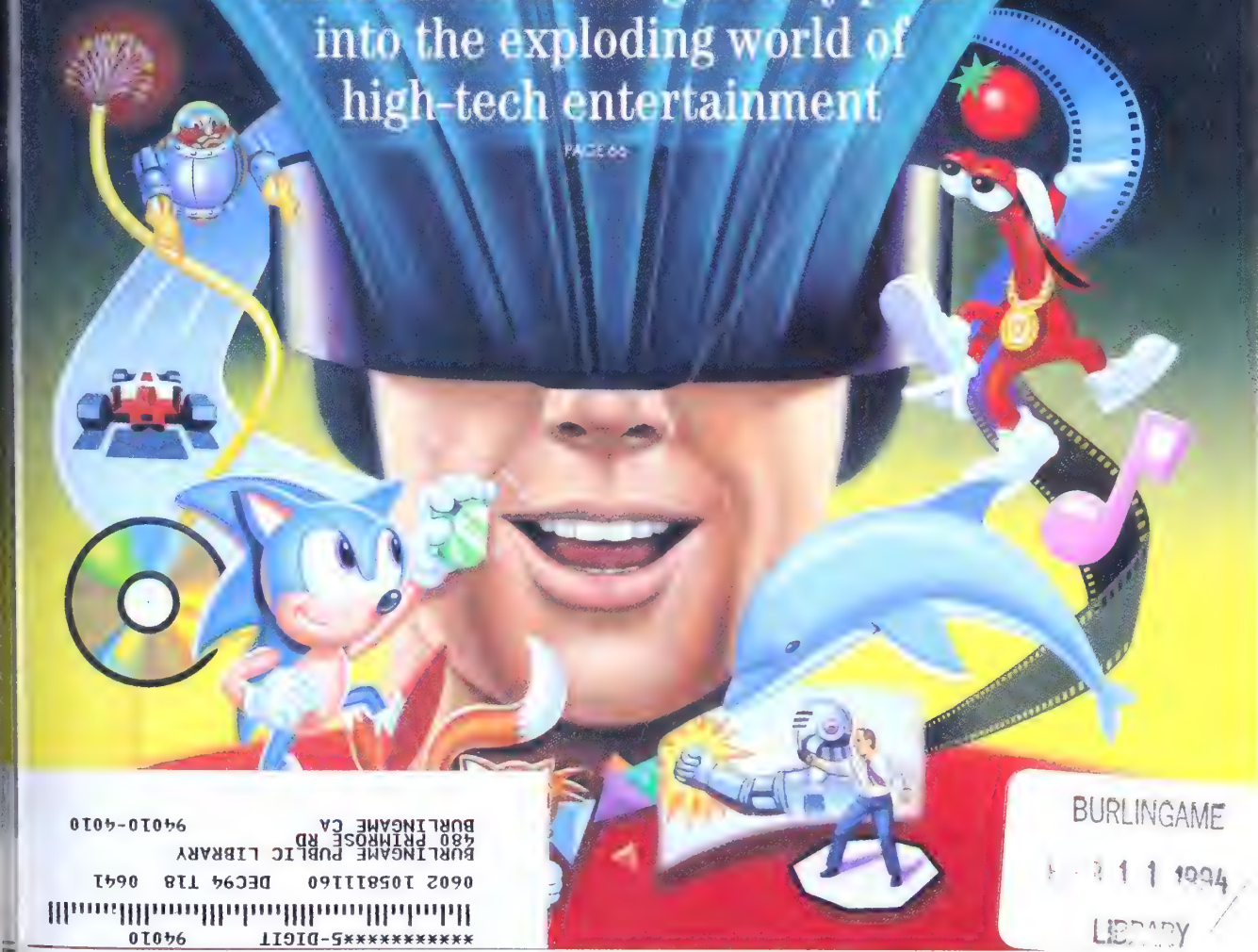
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SEGA!

The \$4 billion company that stung
Nintendo is making a risky push
into the exploding world of
high-tech entertainment

PAGE 66



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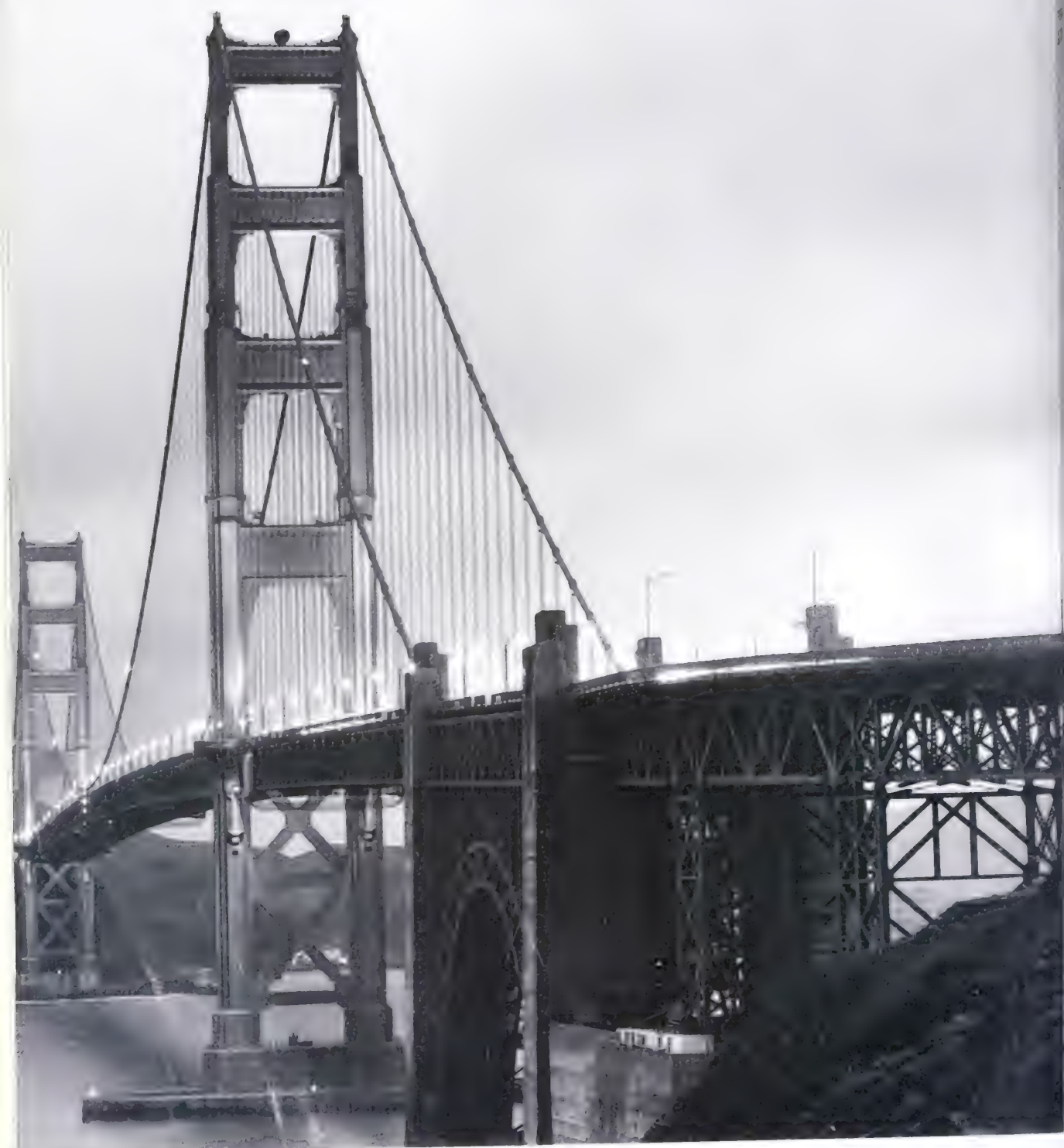
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The Golden Gate Bridge photographed by Robert Stenman



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NEW GAME IN TOWN: A VIRTUAL-REALITY PLAYER AT A SEGA EXPERIMENTAL ARCADE IN THE LAS VEGAS LUXOR HOTEL

Cover Story

66 SEGA!

The \$4 billion video-game company that stung Nintendo is boldly pushing into the exploding world of high-tech entertainment, invading realms ranging from theme parks to multimedia. Started in Japan by an ex-airman from Brooklyn, Sega has come a long way. But is it really ready to join the fray on the Information Superhighway?

71 NINTENDO GETS SERIOUS

President Yamauchi unveils his battle plan for counterattacking Sega

74 CHIPMAKER KOMBAT

Slick new video-game machines open the chip market to all comers

Top of the News

32 MARITAL POLITICS

In Washington, a fiery debate is raging over the growing number of powerful partnerships

34 PANNING FITZ-PEGADO

Critics say she shouldn't be part of Commerce's export team

35 COMMENTARY

Clinton gets a B- for his budget (but a D for honesty)

36 THE STUMBLING HEALTH PLAN

Clinton's package hits the ground limping, at least inside the Beltway

37 A FORD IN JAPAN'S FUTURE?

The carmaker thinks it has a shot at 5% of the market—seriously

38 THEY WANT THEIR OWN MTV

A consortium of recording giants is launching a music-video network

39 MARKETING IS IT

Coke will de-emphasize ads

39 IBM'S SAD MEMORIES

A case of the data-storage blues

42 RUDY REVS UP THE CHAINSAW

Can Mayor Giuliani slash billions?

44 IN BUSINESS THIS WEEK

Sculley's feud, health stocks, data encryption, a new camera, cutting a sin tax, George Garrick, 486 chips

International Business

46 BRITAIN

Once stodgy Reuters dives into the risky world of multimedia

48 BRITAIN

The economy is finally seeing the payoff from Thatcher's revolution

50 COMMENTARY

Will body blows wear down Hosokawa?

53 INTERNATIONAL OUTLOOK

France's antipolitician may be Europe's sharpest pol

Economic Analysis

22 ECONOMIC VIEWPOINT

Roberts: A menacing crime bill

24 ECONOMIC TRENDS

Savings abroad, uneven job losses, Clinton stock dip? Head Start gains

29 BUSINESS OUTLOOK

Another rate hike may be near

61 TOO MANY JOBS?

Behind the Fed's tightening is the notion of "natural" unemployment



WASHINGTON DUAL-EARNERS: CONSULTANTS MARY MATALIN AND JAMES CARVILLE ARE AMONG THE COUPLES SPARKING A DEBATE OVER ETHICS AND CAREER CONFLICTS



80 DEATH THREATS AND RED INK: TO FIX GENERIC DRUGMAKER PAR PHARMACEUTICALS, KEN SAWYER HAD TO PURGE EXECs, CLOSE A DIVISION—AND FEND OFF EXTORTION ATTEMPTS



104 HOME CANCER CARE: PATIENT TORY ANDREWS, 8, AND HIS MOTHER GET INTERACTIVE, ON-SCREEN MEDICAL GUIDANCE. IT'S ONE OF THE WAYS HOSPITALS USE COMPUTERS

Science & Technology

A HUGER HUGHES MEDICAL

Already the largest private biomed researcher, it's adding the equivalent of a university department

DEVELOPMENTS TO WATCH

A pollution solution, Euro lab funds, detecting dangerous chemicals, radiation shield, a shrimp hormone

Sports Business

GOLF STOCKS HIT THE GREEN

New issues such as "Big Bertha" clubmaker Callaway are hot, if highly speculative—again

The Corporation

MATTEL PUTS IT IN GEAR

The toymaker's wild race to market with a new miniature-car line

HOW TO HANDLE A CEO

Zenith's directors are trying to turn the electronics maker around

Marketing

AMEX' GLOBAL BLITZ

It's launching a massive ad campaign that promises to be "both global and local"

People

THE CEO IS A GUMSHOE

To rebuild Par Pharmaceuticals, Ken Sawyer launched an investigation of internal corruption

Finance

84 ROCKING THE "MONOLITH"

Giant insurer CIGNA overhauls its businesses to ape nimbler rivals

85 HIGH-TECH HOME BUYING

Realtors are using computers to ease the chore of house-hunting

86 COMMENTARY

Why the Federal Reserve's crystal ball is so foggy

88 INSIDE WALL STREET

Beyond Perot: How EDS is thriving
A trading card to keep collecting
Bells are ringing at CellStar



62 THE SOUL OF A SMALL MACHINE: HOW A TEAM OF DESIGNERS SET OUT TO MAKE A TOY CAR THAT WOULD LESSEN MATTEL'S DEPENDENCE ON BARBIE—AND DID IT IN FIVE MONTHS

Mutual Fund Scoreboard

91 THE BEST BOND MUTUAL FUNDS

They had a great '93, but with interest rates rising, picking the right one is a riskier business

Information Processing

104 REWIRING HOSPITALS

More computers could be America's real health-care reformer

106 TEAM-MANUFACTURED MEDICINE

How one hospital reengineered itself

Personal Business

108 PHONES: Overseas calling plans

AUTOS: The Baby Benzes mature

SOFTWARE: Scanning business cards

SMART MONEY: Homeowner policies

COLLECTING: TLC for your antiques

Features

6 UP FRONT

12 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

17 BOOKS

Barnet and Cavanagh: *Global Dreams*

115 BUSINESS WEEK INDEX

116 INDEX TO COMPANIES

118 EDITORIALS

A repairman for New York City
Confirm Perry, skip the sanctimony
This health plan needs euthanasia

Up Front

TALK SHOW

Sculley was out in front of the whole digital revolution, and all of a sudden he quit. Now, there's no visionary out there. Maybe Gore will inherit it.

—John McCann, Duke University business professor

EDITED BY LARRY LIGHT AND JULIE TILSNER

FALLING AXES

BRITISH AEROSPACE MAY HIT THE EJECT BUTTON

Times should be good for John Cahill, chairman of British Aerospace. Under Cahill, who joined in May, 1992, the \$15.6 billion defense giant just sold its Rover auto subsidiary to BMW (gaining \$1.2 billion in cash and jettisoning \$1.4 billion in debt), signed a \$30 billion defense deal with Saudi Arabia, and returned to profitability in 1993's first half.

But Cahill, 64, may be getting the boot. He didn't even attend the Rover-sale news conference on Jan. 31. A company insider says an announcement of Cahill's departure could be made be-

fore the company publishes 1993 results on Feb. 23. "I've no comment to make," says Cahill. "Maybe later." BAE won't comment.

The company's directors have grown increasingly concerned that Cahill's lone-wolf management style has alienat-



CAHILL: A lone-wolf manager?

ed key lieutenants, says a former top executive who remains close to BAE. Deputy CEO George Simpson, for ex-

ample, quit in November to join Lucas Industries. Cahill's critics describe him as remote, even in the physical sense. Cahill, a British subject, gets his \$800,000 yearly salary paid in U.S. dollars. And because his primary residence is on Longboat Key, Fla. (where there's no state income tax), he is often far from headquarters.

Plus, supporters note that Cahill won few friends through his attempt to overhaul BAE's loosely disciplined culture by importing a rigorous system of financial controls from BTR, a diversified manufacturer where he once worked.

Turnover at the top is hardly unknown at BAE. If he is ousted, Cahill would be the third chairman to leave the company in two-and-a-half years. *Julia Flynn*

AFTERLIVES

BURGER KING, DA. STEEL MILLS, NYET

Who says Russia is a risky investment? Not Howard Baker, the former Senate Republican leader and White House Chief of Staff. While others fear political upheaval and economic chaos, he envisions a gold mine.

With \$20 million in backing from the pension funds of American Telephone & Telegraph and General Motors, Baker has

a health-services company.

Baker wants to keep investments small (\$2 million to \$5 million), avoid publicity and Russian bureaucrats' attention, and focus on what's thriving in the Russian economy. "I would not try to start up a steel mill in the former Soviet Union, but I'd have no problem with a Burger King or a Dunkin' Donuts," he says. To help, he has brought

in Richard Jacobs, a former vice-president of Occidental Petroleum and right hand man for 20 years to its leader, the late Russophile Armand Hammer.

Baker is not the only one-time U.S. public official there: For instance, former Secretary of State Henry Kissinger has set up a firm to help U.S. companies get started in Russia. *Douglas Harbrecht*



BAKER: Russia is alluring

started Newstar, an investment firm trying to establish small and medium-size businesses in Russia. The potential first came to his attention when he coordinated the 1988 Reagan-Gorbachev summit. Baker will only say that, so far, he's representing a small retail operation and

MUTUAL FUNDS

NOW, ANYBODY CAN PLAY THIS GAME

It seems as if everyone jumping into the mutual fund business these days. With small investors tumbling in droves to mutual funds, a number of unlikely participants are rushing to cash in. Among the new entrants: B'nai B'rith, American Airlines, and Countrywide Credit.

Countrywide hopes to convince the more than 67 million homeowners in its stable to add a little to their mortgage check each month to buy a few shares of a fund. American Airlines plans to begin later this year offering its customers stock mutual funds that will earn frequent-flier miles as well.

B'nai B'rith, the Jewish charity organization, recently began offering its members five fixed-income funds managed by Bankers Trust. Known for giving help during disasters, B'nai B'rith says it wants to help provide relief from the "economic disaster" wrought on the elderly by rising interest rates. *Dean*



REALITY CHECK

MANY LAWMAKERS SAY turning more local crimes into federal offenses is the best answer to crime. As Congress works on pending laws, many are backing tough measures that are popular back home. Polls show that crime is America's No. 1

worry. The Senate bill includes about 50 new federal capital offenses for things such as jackknifing killings, as well as a slew of other offenses that would become federal cases. The law's 'em-up mentality also calls for more U.S. prison space.

IN REALITY, the tough talk masks dubious solutions. If every violent handgun offense were a federal crime, prisons would be overloaded. In 1991, 113,760 were put in state prisons for gun-related crimes. But the Senate bill authorizes only \$3 billion for an estimated 38,000 possible new federal prison beds.



Also, more prisoners don't always mean less crime. From 1983 to 1992, the prison population rose 102%, yet violent crime rose 4%. New U.S. death-penalty offenses may do little. Federal appeals take forever. Since 1988, despite 30 murder prosecutions of drug kingpins, none has been executed. *Catherine*

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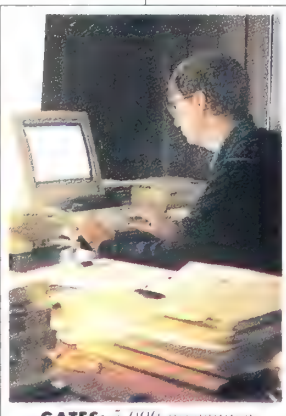
Up Front

GENIUS WATCH

BILL GATES'S INUNDATED IN BOX

A personality profile in *The New Yorker* magazine's Jan. 10 issue revealed Bill Gates's electronic-mail address—and his electronic in box hasn't been the same since. "I've got 5,000 messages stacked up," says Gates, CEO of the Redmond (Wash.) giant, Microsoft. That's up from no more than 10 e-mail messages daily before from the outside (although he may receive as many as 250 per day internally).

Until the article ran, the software billionaire was never too busy to read—and often respond to—messages sent



GATES: 5,000 messages

from around the world via the Internet data highway. Gates chats with outsiders on items that include technology and business opportunities. In his e-mail -ure of the Information Superhighway and his analysis of F. Scott Fitzgerald's *The Great Gatsby*.

Now, though, he has been forced to use a software program that sifts through the deluge to identify items from important people such as Intel

CEO Andrew Grove. But what about the thousands of notes from who-knows-who that continue to stream in and sit in computer memory, ungraced by Bill's attention? Gates has never had anyone else read his electronic mail for him, he says, "but I'm seriously considering it now."

Russell Mitchell

THE REEL WORLD

A MOVABLE FEAST FOR MOVIEGOERS

Moviegoers, tired of standing in an endless line for popcorn while the opening credits roll, can now get a break. Cineplex Odeon, the Toronto-based chain of 361

Called Project Popcorn, the carts are in only 50 theaters thus far, but should expand to every corner of the chain within a month. It's part of a turnaround effort at Cineplex, which posted a \$7.4 million loss in the nine-month period ended Sept. 30. Cineplex figures that concessions sales—20% of yearly revenue, with 80% margins—are part of the



theaters, has started peddling popcorn, sodas, and the like from mobile carts to patrons standing in the ticket line or seated waiting for the flick to start. Thankfully, they don't hawk the goods, ballgame-style, after the show begins.

answer. Just a 10% increase in snack buying among the 90 million patrons would add some \$32 million annually in profits. Meanwhile, expect to see the carts soon at a theater near you: Other chains are looking into the idea. □

FOOTNOTES

DRAWN AND QUARTERED

By Dave Coverly. Design by Tomer



PRODUCT PEER

THE RAG TRADE RAIDS RECYCLING BINS

Polyester, out of fashion since the disco era, may be ready for a comeback, on a wave of environmentalism, no less. Starensier, a Newburyport (Mass.) textile company, has developed fabrics from 100% recycled plastic bottles. Unlike thrown-away metal and paper, plastic has been tough to recycle. Although it has long been used in carpets, it hasn't been easily turned into fabrics soft enough for clothing.

Trouble is, persuading peo-

ple to wear even eco-friendly polyester may be tough. "Natural fibers are still the most attractive," says Constance White, fashion editor of *Elle* magazine. That's why so the company is making only a tiny dent in the 4.1 million plastic bottles used nationwide in just one hour. Still, she



believes that "polyester is definitely coming back" because of the close quality of the clothing since quality is improving. Starensier's main customers are manufacturers of footwear and door-gear. Deja Shoe already uses Starensier's fabric. This spring, Eastpak will use it in an outdoor shoe, and Eastpak will use it in backpacks. Geoffrey S.

THE BIG PICTURE

PRESIDENT PROPOSES, REAL WORLD DISPOSES

Every February, the President sends up his budget for the fiscal year starting the following October. But economic assumptions change, and Congress has its own ideas. Result: higher outlays.



Household debt as a multiple of assets: 1983, 4.7; 1990, 3.7; 1993, 4.0

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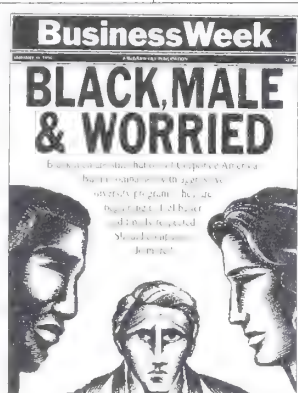
diversity programs are a mask for affirmative action. If affirmative action is as effective as reported, I would have had a position in the corporate world a long time ago instead of being recently unemployed. Corporate diversity programs are just window-dressing.

Veronica Sanders
Akron

I am a 39-year-old, middle-class white male who wakes up every morning knowing that I have an extra edge on the world, given my sex and skin pigment. I was born with that market advantage. I did not earn it nor do I deserve it as a human being, as I do not enjoy or welcome the prospect of giving up unearned privilege. It is therefore understandable that some of the white men interviewed in your article are somewhat angry. But the idea that the white male is oppressed as a group is ludicrous. Fellows (white), that earned edge is still ours, and that,

unfortunately, continues to work to the detriment of us all.

Stewart Selman
St. Paul, Minn.



I have enclosed a "revised" copy of your cover. You might want to follow up on this cover story.

Jackie T. Boards
Lithonia, Ga.

It seems that if white males don't have the upper hand, they are afraid of straight up, even competition. The article seems to want to continue to differentiate white males from the rest of the work force. You are treating white men as if they are some different species. The reason we have a race problem in this country is because white men think others are a different species.

Henry Bennett Jr.
Newark, Calif.

The diversity crowd's most important ally has always been the up-and-coming generation of enlightened white males who are as repulsed by racism and sexism as they are. Why, then, do the proponents of diversity insist on bashing, oppressing, hamstringing, and

tarring us all with the same misguided brush? I, for one, have lost all patience and will henceforth base all personnel decisions on one simple principle: merit.

Steve Anderson
Tucson

THE FED'S RECORD ON DIVERSITY

I feel that I must comment on your article on diversity in the Federal Reserve system ("Is the Fed facing a political correction?" Top of the News, Jan. 10).

Comparing the Federal Reserve with commercial banks and financial companies is really an apples-and-oranges comparison. The information on females and minorities represents only the Board of Governors offices in Washington, which is a government agency with quite different job characterizations than the private-sector Equal Employment Opportunity Commission reports. It would be more accurate and appropriate to use data from the 12 Reserve Banks that file private-sector EEOC reports.

At the Federal Reserve Bank of Boston, for example, women represent 48.3% of all professionals, and minorities represent 17.5% of this job category

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Readers Report

CORRECTIONS & CLARIFICATION

"Taking adversity out of diversity" (Cover Story, Jan. 31) should have said that white males will account for 1% of the net increase in the work force in the year 2000, according to Hudson Institute estimates.

at yearend 1993. Our numbers are approximately the same as the average for all Reserve Banks combined and in line with the private-sector numbers you noted.

Cathy E. Mine
First Vice-President and
Federal Reserve Bank of Boston

DIGITAL EQUIPMENT RESPONDS

Your article "How DEC's 'minicones' led to major losses" (The News, Feb. 7) was an unfounded attack on Digital Equipment Corp.'s executive officer, Robert Palmer, on our largely successful efforts to serve our customers better and improve operating results.

The Systems Business Unit strengthens, rather than diminishes, Digital's strong customer-focused industry programs. We continue to support our industry orientation to solutions, since this is the way customers want to buy products and services from us.

In addition to a dramatic reduction in operating losses, examples of Digital's progress include our PC Business Unit, the implementation of an innovative compensation program that is winning, and the acceleration of our technological leadership in open client/server computing. This progress has all been achieved since October, 1992.

Considering the number of years it took for Digital to get into the trouble it was in, most people agree it is unreasonable to expect us to complete our recovery in just 16 months.

Charles B. Hollander
Vice-President for Communications
Digital Equipment Corporation
Maynard, MA

Thank you for your article on Digital. Now I know why the company changed its colors from blue to red.

Norvell Nelson
Palo Alto, CA

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

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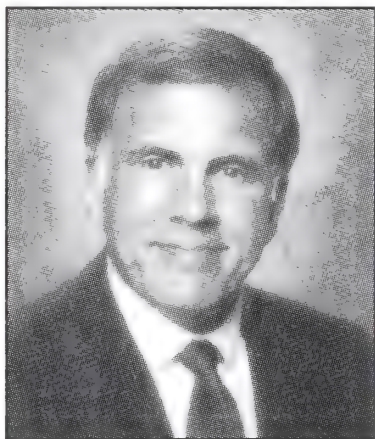
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GLOBAL DREAMS: IMPERIAL CORPORATIONS AND THE NEW WORLD ORDER

Richard J. Barnet and John Cavanagh

Simon & Schuster • 480pp • \$25

THE EMPIRES OF THE 21ST CENTURY?

In 1974, on the heels of Watergate, gas lines, the zero-growth movement, and ITT's attempt to topple the government of Chile, Richard J. Barnet and Wald E. Müller came out with a book the times. *Global Reach: The Power of Multinational Corporations* depicted world leadership falling into the hands of the 300 megabusineses with the right and will to bend societies to their nomic ends.

What became of the giants Barnet and Müller profiled isn't quite what they predicted. David Rockefeller's Chase Manhattan Bank is a recovering nation-bank. IBM is a behemoth struggling to adapt and survive. Volkswagen is the paradigm of a company that lost its way. Exxon and Shell lumber on, as oil companies usually do, but employing thousands fewer people.

Global Reach today seems a bit like Woodstock—a happening peculiar to its era. After all, it's hard to go on about an army of corporate leviathans when some of the biggest are the walking wounded. Unless you want to write a sequel, as Barnet and co-author John Cavanagh have done. In *Global Dreams: Imperial Corporations and the New World Order*, they have dumped the old gang and freshened up the thesis. Now, it's a "few hundred corporate giants... many bigger than most sovereign nations," becoming not just economic agents, but "the world empires of the 21st century." The authors focus on five: Bertelsmann, Philip Morris, Sony, Ford Motor, and Citicorp. Each, they say, is a pillar of the new order, in which media and entertainment, consumer marketing, global manufacturing, and global finance are combining to

form a vast global shadow government.

Germany's Bertelsmann, the world's No. 2 media giant, after Time Warner Inc., controls 375 companies. With properties as diverse as Whitney Houston, the Cowboy Junkies, and Arturo Toscanini, plus Bantam Doubleday Dell Publishing Group Inc. and the bulk of European cable and pay TV, it can shape culture and taste around the world, aloof from government influence.

Similarly, the authors say, slick marketing enables Philip Morris Cos. to push Marlboro around the globe, regardless of health concerns, even as it cynically, in their view, remakes itself as a food company. To Barnet and Cavanagh, Philip Morris is beyond control—like Nestlé, Coca-Cola, Sara Lee, and most other huge consumer-goods makers.

Ford draws the garden-variety criticism of multinationals: They export jobs, withhold technology, and crowd out local producers. At first, Ford seems an odd choice, since its base is high-wage Europe and North America. But the authors see its buildup in Mexico as the start of a low-wage distributed-manufacturing strategy. Citicorp, a stand-in for any number of financial institutions, gets whacked for "spreading money"

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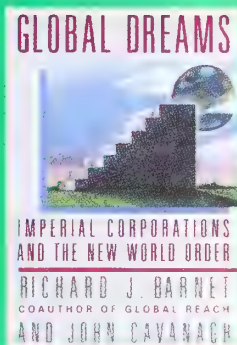
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and the world, manipulating exchange rates, and exporting local savings led for development. Any book that counts corporations to per- as expected is bound offer a few reverses, this one has its share. doesn't help, for exam- that EuroDisney's tot- ing theme park near s—which the authors ght would bag more ists than the Eiffel er, Sistine Chapel, ish Museum, and s Alps put together— eir leadoff example of ural imperialism.

like a lot of confused globalists, Bar- and Cavanagh are trying to redraw post-cold-war map using an old, na- listic template. To them, almost any of government economic control is better than today's unregulated, ket-driven mania. But since many markets are in places where govern- ts were, if not communist, corrupt venal, they apply that argument se- vely. Worked up though they are

The authors see
multinationals forming
a world shadow
government—beyond
the reach of any state



about MTV's impact on Hindu and African cultures, they can hardly call for restrict- ing the new flow of information in China, Russia, or Eastern Europe.

And for a book about the future, *Glo- bal Dreams* displays a glaring lack of thinking about new industries and new corporate structures. How long, for ex- ample, before state-backed conglomer- ates coming out of greater China take on Procter & Gamble Co. or Bertelsmann?

And where are the soft- ware and biotech compa- nies? Microsoft Corp. doesn't get a mention here. Neither does Am- gen Inc., the largest U.S. biotech outfit.

The debate whether multinationals do more harm than good isn't about to disappear—nor should it. Modern multinationals are not social institutions. They will play govern- ments off one another, shift pricing to minimize taxes, seek to sway opin- ion, export jobs, or with- hold technology to main- tain a competitive edge.

One day, old lefties such as Barnett and Cavanagh may see the return of a '70s-like desire to turn the screws on the multinationals. But not soon. Today, it's fear of failure, with IBM, Volkswagen, or Sony throwing thousands out of work, that keeps the lights on late in Washing- ton, Bonn, and Tokyo.

BY ROBERT J. DOWLING

Bob Dowling is an assistant manag- ing editor at *BUSINESS WEEK*.

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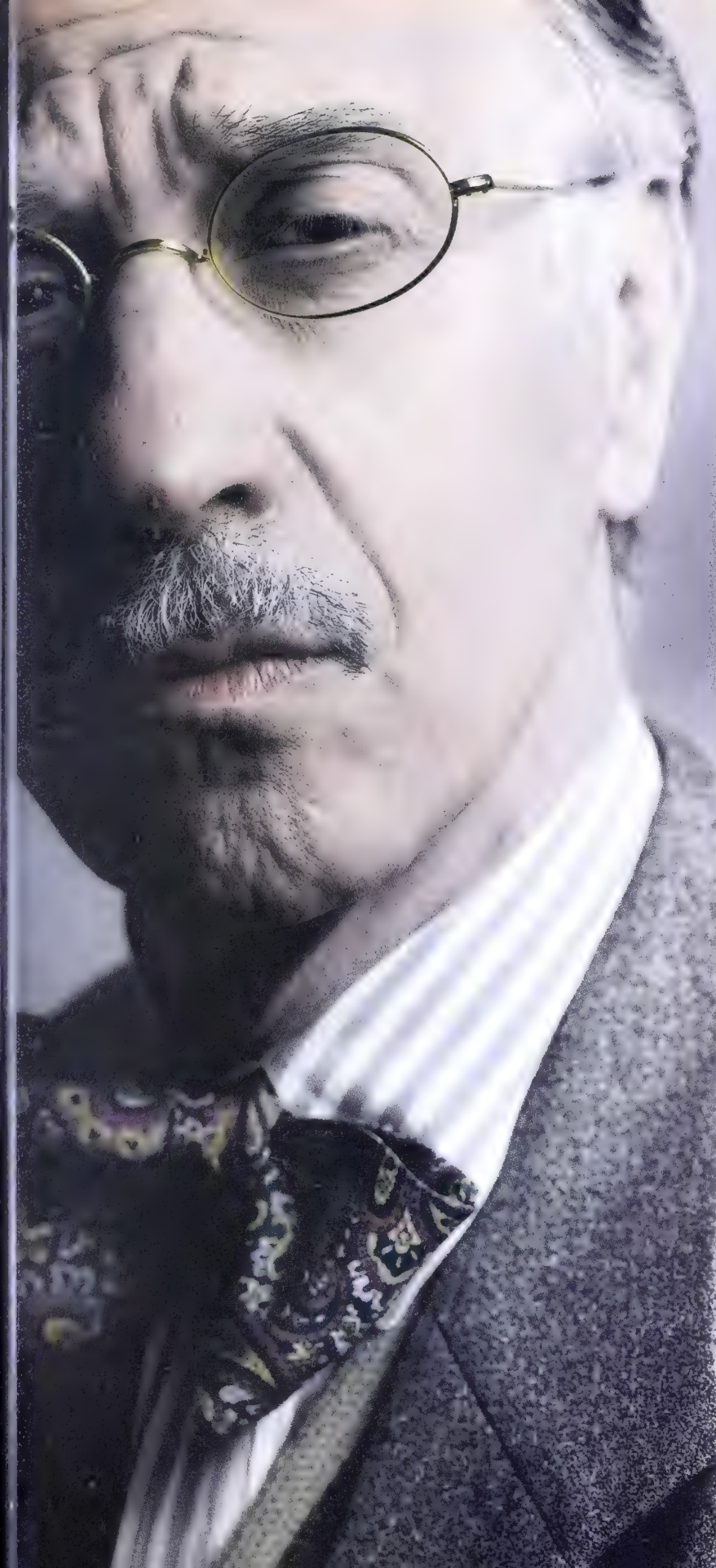
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SO YOU SAY YOU'RE NOT A GANG MEMBER? READ ON

BY PAUL CRAIG ROBERTS



Under Congress' new crime bill, it would not take much creative effort for prosecutors to construe the actions of a board of directors or parents protesting a school policy as gang activity

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

The government's war on crime threatens to make criminals of us all. U.S. federal statutes are expansively interpreted by prosecutors and judges. If this custom endures, and there is no reason to think that it won't, the crime bill winding its way through Congress threatens to turn large numbers of Americans into members of criminal gangs.

Do not take this lightly. Violators of the gang provision can be imprisoned for up to 20 years, and property associated with a gang crime is forfeited to the U.S. government.

The bill defines a criminal gang as "an organization or group of five or more persons, whether formal or informal, who act in concert, or agree to act in concert, for a period in excess of 30 days, with a purpose that any of those persons alone, or in any combination, commit or will commit, two or more predicate gang crimes, one of which must occur after the date of enactment of this chapter and the last of which occurred within 10 years (excluding any period of imprisonment) after the commission of a prior predicate gang crime."

No member of a board of directors or a group of parents protesting a school policy would think of himself or herself as a member of a criminal gang, but it would not take much creative effort for a prosecutor to construe the statute in this way. Indeed, it seems reasonable to expect that the statute will be applied to the management, directors, lawyers, and accountants of failed financial institutions with federally insured deposits. In fact, this construction is made likelier by another provision of the bill, which urges prosecution "in an aggressive manner" of savings and loans whose failure can be attributed to crime.

CHURCH QUARRELS. Unfortunately, this would be all too easy to do. The unanticipated disinflation in the 1980s, together with the 1986 tax reform, pulled the rug out from under real estate values, leaving S&Ls with asset valuations that look excessive in light of posterash market values. In suits against S&Ls and their lawyers and accountants, federal prosecutors have attributed the discrepancy in values to fraud and negligence. Many innocent people have suffered from this misconstruction of fact.

Just how expansively the gang statute is likely to be interpreted can be inferred from the history of the Racketeer-Influenced & Corrupt Organizations Act (RICO). Enacted in the 1970s as a weapon against organized crime, RICO—with its award of treble damages and attorney's fees—has found its way into divorce disputes, apartment-rental disputes, disputes between car dealerships and suppliers, and

disputes within a church's congregation. Prosecutors have used RICO's power to freeze defendant's assets as an effective weapon coercing plea bargains.

Notre Dame University law professor Robert Blakey, who drafted RICO as a Senate staffer, recently told columnist Cal Thomas that the law was intended for the Mafia, "Gandhi or Martin Luther King Jr." Yet, at the Supreme Court's expansive reading of RICO on Jan. 24, applying it to abortion protesters, it is clear that the law, had it been around, could have been used to stop the civil rights movement in its tracks. There's a substantive difference between civil rights protesters blocking lunch counters and abortion protesters blocking clinics. In its ruling, the Court ignored both the text and legislative history of RICO. Chief Justice William H. Rehnquist wrote that "the fact that RICO has been applied to situations not expressly anticipated by Congress" simply demonstrates the statute's "breadth."

ILLOGICAL. You can bet a 20-year jail term there will be ample applications of the "anti-gang" statute to demonstrate its breadth. For starters, priests, nuns, and church members, who can now be RICOed, are being sued for extortion by pro-choice advocates and abortion clinics. If these suits succeed, protesters could be open to prosecution as members of a criminal gang because extortion is listed as a predicate crime in the crime bill.

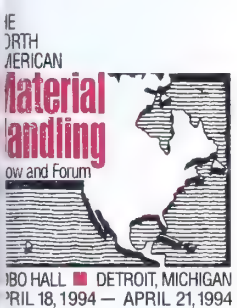
Legally speaking, there is good reason to expect such absurdities in our future. In 1921 book *The Nature of the Judicial Process*, Benjamin Cardozo, later a Supreme Court justice, noted the tendency of a legal principle to expand itself to the limit of its logic—or, in other words, as it is today. Any company ensnared in a morass of environmental crime, agribusiness, foul of wetlands regulations, hunting or fishing clubs with firearms that can be construed as "assault weapons" under the broad language of the crime bill, and any financial company with mistakes in its prospectus could be prosecuted under the anti-gang statute.

Prosecutors have gone to absurd lengths to stretch statutes beyond the limits of their applicability. It was a conservative Republican Justice Dept. that applied the Migratory Bird Act to an accidental oil spill and charged Exxon Corp. with killing migratory birds with a hunting license. Some \$150 million of oil came "refuse matter" discharged without permit. With such expansive interpretation of statutes, only a recluse will be able to escape being charged with membership in a criminal gang once the crime bill is on the books.

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Economic Trends

BY GENE KORETZ

DEPRESSED ECONOMIES ARE SAVING FOR A SUNNY DAY

With the Japanese and European economies still staggering, the consensus view is that any movement out of recession will be slow and halting. Indeed, the latest forecast of the Organization for Economic Cooperation & Development projects growth of only 0.5% for Japan and 1.5% for Europe this year.

Nonetheless, economist Bruce C. Kasman of Morgan Stanley & Co. thinks there's still a good chance that foreign economies will expand more vigorously than anticipated after they finally touch bottom. "The case for an upside surprise to the global economy," he says, "may not be as farfetched as it seems."

For one thing, Japanese and European exports will benefit from solid recoveries in the U.S., Canada, Britain, Australia, and New Zealand. All of these key markets are expected to grow by 2.5% to

tapped in industrial economies overseas once interest rates decline further and upturns begin in earnest. At current levels of 13% to 17% (vs. 4% or so in the U.S.), savings ratios in Europe and Japan could fuel a sharp upswing in consumption and growth.

The effect is likely to be less intense in Europe than in Japan, observes Kasman, because German households face large tax increases and—unlike their European neighbors—have actually reduced their savings substantially in recent years. Thus, a muted German recovery is likely to be a drag on the rest of the industrial world. But the savings buildup elsewhere, and particularly in Japan, where a hefty \$55 billion income tax cut has just been announced, has set the stage for what could be an explosive surge in consumption.

JOBS: WHERE THERE WAS A DOWNPOUR DURING THE DOWNTURN

As ominously as joblessness loomed in the recent recession, Stephen Gold and Sarah Ritchie of the Center for the Study of the States in Albany point out that its impact on states was unusually uneven. Indeed, they find that some 22 states—mainly in the Midwest, Southwest, and Rocky Mountain areas—suffered no significant declines in employment at all.

By October, 1993, report Gold and Ritchie, all 22 states had posted new employment highs—12 of them racking up job gains of at least 10% since January, 1989. Moreover, an additional 10 states that suffered job losses of at least 1% during the recession have already exceeded their prerecession levels.

The bad news is that seven hard-hit states—California, Connecticut, Massachusetts, Maryland, New York, New Jersey, and Pennsylvania—had still failed to show any significant gains through November, 1993. And these states account for about 30% of total national employment.

WHY CLINTON MAY BE ROOTING FOR A DIP IN THE MARKET

Call it the Presidential cycle. With the exception of Harry Truman's tenure in office and Ronald Reagan's second term, every President since Warren Harding has experienced a cyclical low in stock prices during his first or second year in office.

The reason, as Thomas D. Gallagher of Lehman Brothers Inc. points out, is that Presidents like to get the bad news out of the way early, making them more tolerant of fiscal and monetary restraint in the initial years of their terms. The early restraint then gives way to more stimulative policy as a Presidential election approaches.

Indeed, the Clinton Administration's mild response to the Federal Reserve's recent tightening suggests that it is willing to swallow some monetary medicine now—and perhaps more later this year—to ensure an improving economy and a rising stock market two years down the road.

Economist David Hale of Kemper Financial Cos. thinks the health of the financial markets could be a crucial factor in the next Presidential election. With 10 million households holding mutual funds today, he says, "the Clinton Administration's best political strategy might well be to engineer a moderate midterm market correction through higher interest rates later this year or in 1995 in order to set the stage for a new bull market in 1996."

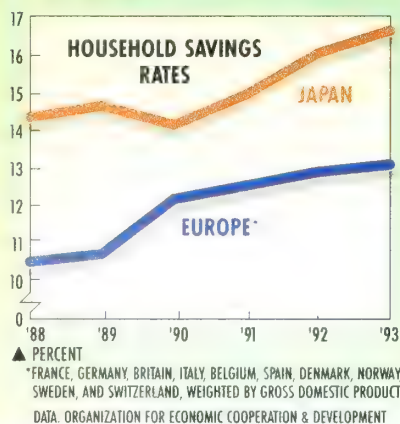
THE GAINS OF HEAD START KIDS VARY BY GROUP

Head Start is one of the more highly praised government programs for young children, but a new National Bureau of Economic Research study indicates that its effects vary among different ethnic groups. Specifically, the preschool program appears to improve the academic performance of whites and Hispanics more than blacks, and health status of blacks more than whites and Hispanics.

In the study, economists Janet Curran and Duncan Thomas compared children who attended Head Start with their siblings who did not. They found that white children who participated in the program did better on math and vocabulary tests than their brothers and sisters who hadn't participated, and Hispanic children exceeded their siblings in reading and vocabulary tests.

By contrast, they conclude that Head Start had little effect on the test scores of black children *vis-à-vis* their siblings. From the perspective of health, however, African-American children who attended Head Start turned out to be taller than their siblings of the same age and gender—perhaps because of the better nutritional content of school meals.

SAVINGS POST SOME BIG JUMPS OVERSEAS



3% this year, giving a healthy boost to Japanese and European growth.

More important, says Kasman, are the dynamics of savings behavior there. Households in Japan and Europe have boosted savings dramatically in recent years (chart) in response to record unemployment and high real interest rates that have lifted rates of return on savings. The rise in household savings rates—close to an unprecedented three percentage points in both Japan and Europe—is all the more impressive because it reverses a long-term downward trend.

The upshot, says Kasman, is that a large pool of liquidity lies ready to be



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THE FED MAY NOT STOP WITH A SINGLE NUDGE

Now that the Federal Reserve has tightened monetary policy, a key question arises: When is the next rate hike? It may be sooner than you think. That's because the economy is perking along faster than almost anyone had anticipated. Last quarter's 5.9% growth rate may be revised even higher because of the strong December data. And early readings on January suggest that first-quarter growth might be well above the current consensus forecast of 3%.

To be sure, the first glance at January's employment report showed a less-than-robust economy. However, the Labor Dept. said unusually cold weather over much of the country limited the month's payroll gains to a slim 62,000, after averaging 190,000 per month during the fourth quarter.

If so, January's job report was, in fact, very strong. That's because hours worked and weekly pay still managed to post big gains last month, suggesting that industrial output and household income are chugging right along. Since the Fed is trying to quash inflationary expectations before inflation itself picks up, it isn't likely to sit back while the economy outperforms even its own forecast. For the past two years, the economy has grown at an annual rate of 3.4%, and it is getting closer to the point where inflation is easier to generate.

FINANCIAL MARKETS SHOULD RECOVER However, the Fed is getting some help from a key source: fiscal policy. President Clinton's budget proposal for fiscal 1995 implies more fiscal drag that will weigh on economic growth. In later years, the budget numbers show a sharp contraction in the federal deficit, especially as a percentage of gross domestic product (chart). Until then, the amount of deficit reduction in that forecast is critically dependent on future savings from health-care reform. However, the Congressional Budget Office said on Jan. 18 that health care will actually add to the deficit. The financial markets, both in the U.S. and overseas, already bristled at the Fed's first tightening in five years: a quarter-point hike in the federal funds rate, to 3¼%, on Jan. 4. Prices of foreign stocks, bonds, and currencies were weighed in fear that higher U.S. rates would draw U.S. money back home.

The U.S. rate hike substantially weakened the German mark, which may force the Bundesbank to delay its next rate cut, even though the German economy appears to be sliding back into recession. But whatever the Bundesbank does, the Fed's move is unlikely to affect the pace of rate-cutting elsewhere in Europe. In fact, Britain trimmed its rates further on Feb. 8.

Back home, the Dow Jones industrial average plunged 96 points after the Fed's action. However, the immediate reaction of both the stock and bond markets is unfounded and likely to be reversed. The Fed's move—and even another quarter-point hike—does not alter the favorable outlooks for growth, profits, and inflation.

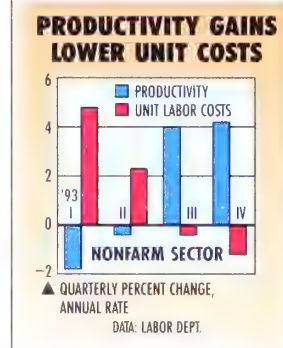
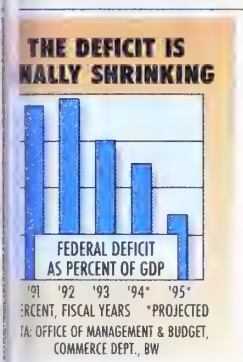
The U.S. bond market might need more coaxing. In addition to the Fed's move, bond folks had to weather a huge \$40 billion Treasury refunding the following week. Also, the reports for producer and consumer prices, due on Feb. 11 and Feb. 17, respectively, might not look as tame as the bond market would like. In particular, problems in the seasonal adjustment of the consumer price index tend to overstate prices in the first quarter, when last year's inflation scare arose.

Still, given the combination of a less accommodative Fed policy, tighter fiscal policy, cooler economic growth, and good inflation readings—a mix that should emerge this summer—a bond rally seems possible. That could send long-term interest rates back down toward 6%.

For now, the inflation outlook remains bright. Nonfarm productivity in the fourth quarter rose at a 4.2% annual clip, after a 4% jump in the third quarter. Factory productivity soared 7.8%. With compensation rising only 2.9% last quarter, unit labor costs fell by 1.2%—the largest drop in 6½ years (chart). For 1993, unit costs rose a slim 1.2%—the slowest pace in a decade.

JANUARY'S COLD PUT SOME JOBS ON ICE

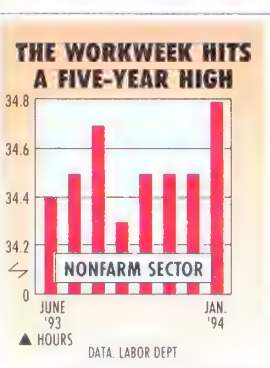
Better productivity growth should ease worries that stronger labor markets will lead to an acceleration in wage and price growth. That's good, because if you brush away the ice and rock salt from the January employment report, it shows some undeniable muscle. Since the Fed apparently had its mind made up to tighten anyway, the report's underlying strength was one reason



Business Outlook

why the Fed did not hesitate to lift interest rates on the same day the data came out.

Certainly, the weather affected some hiring. Payrolls at amusement parks and restaurants, for instance, fell in January. And temporary jobs rose only 11,000, compared with the 43,000 new slots averaged in the previous three months. Business closings reduced the use of temps, and workers who normally would take such jobs may have decided to stay home during the cold snap.



Elsewhere, though, demand for labor was looking up. The loss of 3,000 construction jobs in January hardly compares with the 34,000 workers laid off during last year's blizzard. That suggests hiring was up in areas not affected by weather. And manufacturers added 26,000 new jobs in January, better than the 13,000 monthly pace of the fourth quarter.

In fact, the jobless rate dropped rather sharply in January. Under the Labor Dept.'s new household survey and adjustments for the 1990 census, joblessness fell to 6.7% in January, from 7% in December. The new method corrects for the past undercounting of unemployed women. In addition, the workweek in the nonfarm sector rose to a five-year high of 34.8 hours (chart). The factory workweek alone remained at its post-World War II peak of 41.7 hours, with 4.4 hours of overtime.

INDUSTRY USED LESS CAPACITY AFTER ALL

The new factory jobs and long workweek indicate another gain in industrial production, especially since the weather probably caused a big jump in energy output.

And auto production was robust in January.

However, the quicker pace of factory output isn't about to strain capacity and lead to inflation. After revising

output and capacity, the Fed now says industry is at 81.5% of capacity in 1993, down from the 81.9% originally reported. This lower operating rate means most industries will not see production bottlenecks any time soon.

Output will rise further, though, because manufacturers are facing increasingly emptier warehouses. A 1.4% advance in factory shipments drew down inventories 0.6% in December. Stock levels compared with sales are now at an all-time low (chart). Replenishing these inventories will help boost growth this quarter.

That's good news for factory-job hunters. Also, a 2% rise in the Conference Board's index of help-wanted ads in December suggests better job growth for the economy in general. The index stands at a three-year high.

Even with lackluster job growth, wages took a big jump in January. Hourly nonfarm pay rose 0.7%, to \$11.03, and weekly pay was up 1.6%. Should these gains worry the Fed? Probably not, because the uptrend in productivity will offset the wage growth. But the fatter paychecks will keep consumer spending on the rise.

Despite harsh weather, sales of cars and light trucks in January rose 4%, to a peak 13.2 million annual rate. And because incomes are rising, consumers are borrowing at a rapid pace. Installment credit rose by \$7.3 billion in December. In the fourth quarter, households borrowed a hefty \$21.7 billion, the biggest quarterly addition to debt in almost eight years.

The upbeat signs in consumer spending and the labor markets make a strong argument that first-quarter growth may be closer to 4% than 3%. That will make the administration's budget targets easier to reach. But it also ups the ante at the Fed, which may feel the need to apply the brakes again—perhaps before winter is out.



THE WEEK AHEAD

BUSINESS INVENTORIES

Monday, Feb. 14, 10 a.m.

Inventories at manufacturers, wholesalers, and retailers probably fell 0.1% in December, according to the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Inventories rose 0.6% in November, but a December decline is suggested by the sharp, 0.6% drop in factory inventories for December.

INDUSTRIAL PRODUCTION

Tuesday, Feb. 15, 9:15 a.m.

Industrial output likely rose by 0.4% in January. The long workweek and job gains suggest factory output rose, while

heavy weather-related demand for energy boosted utility use. Operating rates for all industries probably rose to 82.9% last month, from a revised 82.8% rate in December. The Federal Reserve's revisions to industrial output and capacity use, reported on Feb. 4, show that production rose by 4.1% in 1993, rather than 4.2%, and operating rates averaged 81.5% last year, down from 81.9%.

HOUSING STARTS

Wednesday, Feb. 16, 8:30 a.m.

The harsh weather and California earthquake suggest that housing starts plummeted in January, to an annual rate of 1.35 million. In December, they rose 6.2%, to a four-year high of 1.54 million.

CONSUMER PRICE INDEX

Thursday, Feb. 17, 8:30 a.m.

The MMS consensus calls for a 0.3% gain in total consumer prices in January, from 0.2% in December. Problems seasonally adjusting the price index usually cause higher increases in the first quarter. Excluding food and energy prices probably rose 0.3% last month, the same modest gain as in December.

MERCHANDISE TRADE BALANCE

Thursday, Feb. 17, 8:30 a.m.

The trade deficit probably widened \$10.7 billion in December, from \$10.5 billion in November. Both exports and imports likely increased.

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From the day in 1991 when he became Vice-Chairman of the Federal Reserve, David W. Mullins Jr. and his fiancée, Mary Ann Gadziala, have been trying to resolve a domestic conflict. Gadziala, a senior lawyer at the Securities & Exchange Commission, has shunned job feelers from banks and law firms, fearing that her relationship with the Fed governor could create an appearance of impropriety. "If you have high ethical standards, you must be extremely careful," she says.

For Gadziala, the problem is due to be solved on Valentine's Day, when Mullins leaves the Fed to become an investment banker. Plenty of other Washington power pairings have also successfully juggled their sometimes conflicting careers. There's Senator Bob Dole (R-Kan.) and his wife, Elizabeth, for instance; Supreme Court Justice Ruth Bader Ginsburg and her lawyer-professor husband, Martin; and political consultants James Carville and Mary Matalin. With more two-income, boomerage couples entering the top ranks of

COUPLES, CAREERS, AND CONFLICTS

WASHINGTON'S DEBATE OVER POWER PARTNERSHIP



FED NOMINEE PERRY (LEFT) FACES AN ISSUE THAT DOGGED MULLINS. THE FIRST DUAL-CAREER PRESIDENCY



government, the potential for conflicts is growing. "We need to balance a couple's right to pursue honest careers against the public's right to the appearance of honest government," says a top Clintonite.

Where that point of balance should be has caused dissension within the Administration. A case in point: whether to proceed with the nomination of Brookings Institution economist George L. Perry to the Fed board. Perry's wife Dina manages three large mutual funds for American Fund Advisors Inc. While his decisions at the Fed could affect those funds' performance, lawyers see no legal barrier to his appointment.

Political advisers, however, are worried about appearances.

The government's existing conflict-of-interest rules are open to broad interpretation. And many ethics experts argue that, as long as a couple makes full financial disclosure and refrains from exchanging sensitive information, there's usually no problem meeting the requirements. "You should not make rules that limit the career of one spouse because of the career of the other," says Stephen Gillers of the New York University School of Law. Others are much tougher. "The Perrys create an egregious appearance of conflict that I find unacceptable," says C. Boyden Gray,

President Bush's White House counsel and ethics czar. "She has to change jobs."

ONE HITCH. That's precisely the remedy female professionals fear. The potential for conflict is greatest in fields where women have been most successful—law, finance, and journalism. The worry is that the burden for dealing with problems will fall disproportionately on women. "I hope the trend toward dual-career families isn't used to disadvantage women just as they are breaking into the top," says Sheila Wellington

sident of Catalyst Inc., a special-interest group for female managers. In the past, the female half of a power couple normally has taken the fall. For example, when Samuel K. Skinner served as Bush's Transportation Secretary and then staff chief, his lawyer wife, Honey, was barred from taking the cases that posed conflicts. Marilyn Quayle might have come under the spotlight had she followed through on her desire to return to law practice in 1989. There was just one hitch: Her husband Dan had become Vice-

hire her, but the opportunities were fraught with potential conflicts." Marilyn Quayle decided not to practice while Dan was in office.

The job of pioneering at the top fell to Bill and Hillary Rodham Clinton, the first professional couple to occupy the White House. And the Clintons have raised consciousness in a

files face tough questions, too. For instance, the consumer group Citizen Action has special access to the Environmental Protection Agency through staffer Michael Podhorzer, husband of EPA Administrator Carol M. Browner.

Podhorzer says he avoids lobbies on health issues and steers clear of environmental matters. Then there's William R. McClucas, the SEC's head of enforcement. He is engaged to former SEC lawyer Kaye F. Williams, assistant general counsel at the Securities Industry Assn. since last fall. Williams sees no conflict, because she deals

VICE PRESIDENT GINSBURG'S SPOUSE, MARTIN (RIGHT). RIGAN'S JOHN (LEFT) AND DEBBIE GELL (BELOW)



FED CHIEF ALAN GREENSPAN AND ANDREA MITCHELL OF NBC (ABOVE), SENATOR BOB DOLE (LEFT), FORMER TRADE REP CARLA HILLS (RIGHT)



CONSULTANTS MARY MATALIN AND JIM CARVILLE (LEFT). MARILYN AND DAN QUAYLE



sident. "Suddenly, the options were broader—and narrower," says Sheila W. Lee, spokesperson for the 1988 Bush-Vice campaign. "Everyone wanted to

way they hadn't bargained on: They've been criticized for possible conflicts while she practiced law in Little Rock and he was governor. A major example: She represented Madison Guaranty Savings & Loan before the state securities commissioner, a gubernatorial appointee. Such conflicts are at issue in the probe into the Whitewater affair.

Today, couples with much lower pro-

with the SEC on policy and market regulation, not enforcement. Moreover, she adds, "we are both lawyers who have ethical obligations to keep client information privileged."

STIFF PRICE. Avoiding even the appearance of conflict, though, can be costly. When George D. Gould became Under Treasury Secretary in 1985, he had to negotiate a detailed agreement to prevent conflict over the business of his wife, Jane, a portfolio manager at Alliance Capital Management in New York. She was barred from taking any new accounts and from managing bond investments. Legal fees for the agreement and the creation of blind financial trusts cost "more than my first year's salary at Treasury," says Gould.

Former U.S. Trade Representative Carla A. Hills and her husband, Roderick, a former SEC chairman, also paid a stiff price for her success. When she took the trade job in 1989, he was a lawyer and investment banker with foreign clients and served on several corporate boards. Given the potential for

PHOTOGRAPHS BY JEFFREY M. HARRIS FOR TIME; GORE: JEFFREY M. HARRIS FOR TIME; DOLE: JEFFREY M. HARRIS FOR TIME; MITCHELL: JEFFREY M. HARRIS FOR TIME; CARVILLE: JEFFREY M. HARRIS FOR TIME; QUAYLES: JEFFREY M. HARRIS FOR TIME; HILLS: JEFFREY M. HARRIS FOR TIME

conflicts, she promised at her Senate confirmation hearing that the USTR's general counsel would oversee her husband's business activities. Roderick also resigned from the bank and boards, and the couple took a big hit when forced to sell a large stock portfolio. "The rules were too harsh," says Carla Hills.

Debbie Dingell, too, has chafed under some restrictive compromises. A longtime lobbyist for General Motors Corp., she had to rearrange her duties before marrying House Energy & Commerce Committee Chairman John D. Dingell (D-Mich.) in 1981. She now shuttles between Detroit and Washington as president of the charitable General Motors Foundation Inc. But in election years, she pays her own airfare and won't even drive a corporate car to avoid the appearance that GM is footing the bill for trips during which she might campaign for John. "People are looking over my shoulder all the time," she says. "Why don't you write about all the media couples with conflicts?"

"PHONY GIMMICK." She has a point. Laws and ethics codes aim to head off financial conflicts, but Washington trades in other currencies as well: power, prestige, and information. And the press has many potential conflicts. NBC White House correspondent Andrea Mitchell attends dinner parties with Fed Chairman Alan Greenspan, her longtime companion. CBS White House correspondent Rita Braver is married to attorney Robert Barnett, who gave up the Clintons as clients when she took her post.

When potential conflicts lurk everywhere, it's tough to lay down firm rules. Purists say only a law barring officials' spouses from working in related fields would protect against favoritism. "Government requires higher standards," says Monroe H. Freedman of the Hofstra University School of Law. "The current lax standards are a phony gimmick made up by lawyers in New York and Washington, whose lives are based on the revolving door."

But forcing spouses to leave promising careers could price government service out of reach—especially with federal pay capped at \$143,800, less than half what many partners in Washington law firms earn. The solution may lie more in careful screening of appointees and fuller financial disclosure than detailed rules. "At the very core of it is an act of faith," says Gould. "When you're finished, you still depend on someone's integrity." But that advice works only if the public accepts the plea of the growing ranks of power couples: Trust us.

By Owen Ullmann and Mike McNamee in Washington

NOMINEES

A SKILLED PROMOTER —OR JUST A RON BROWN CRONY?

Critics say Lauri Fitz-Pegado shouldn't be part of Commerce's export team

The Clinton Administration's drive to push exports has put the Commerce Dept.'s U.S. & Foreign Commercial Service on the front lines. The agency's 1,250 staffers use their contacts and knowhow in 70 countries to help U.S. businesses compete.

Yet President Clinton's nomination of former Hill & Knowlton Inc. executive Lauri J. Fitz-Pegado to head the service has languished since September. The reason: Fitz-Pegado, like her mentor Commerce Secretary Ronald H. Brown, has represented controversial foreign clients in the past. Critics also are worried about her lack of trade experience. They fret that she will soon return to lobbying work.

Now, Brown is stepping up the battle to win confirmation for Fitz-Pegado, who worked for him at the Democratic National Committee. The Senate Commerce Committee has scheduled a hearing for Feb. 10. And Fitz-Pegado, who is working as a consultant at Commerce pending her confirmation, is outraged. "I bring a lot of skills that will help me enhance U.S. business abroad," she says.

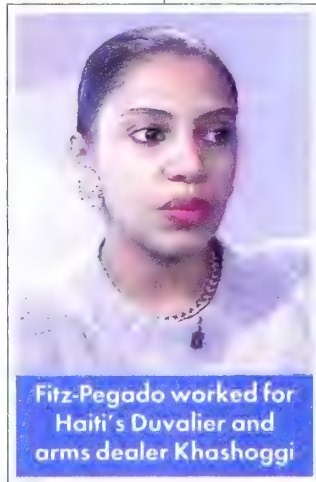
Few doubt the 38-year-old's brains and drive. From modest beginnings in Washington, D.C., she graduated Phi Beta Kappa from Vassar College and earned a master's degree at Johns Hopkins University School of Advanced International Studies. And she has some international experience: She did stints in the Dominican Republic and Mexico for the U.S. Information Agency early in her career.

ORDERS. But at the Republican lobbying firm of Gray & Co., the self-described "image enhancement" specialist found herself crafting publicity campaigns for controversial clients. She says she was assigned to them by superiors.

One of her first big clients, Haitian dictator Jean-Claude "Baby Doc" Duvalier, also was represented by Brown. According to Fitz-Pegado, she handled Duvalier's media relations, while Brown, then a law partner at Patton, Boggs, & Blow,

did some of his lobbying. Among other things, Fitz-Pegado says she launched a campaign to counteract publicity about the high rate of AIDS in Haiti. Arms merchant Adnan Khashoggi was another client, though Fitz-Pegado says her role was limited to preparing Khashoggi's daughter for a ceremony at American University dedicating a wing of a new building named for her father.

After Hill & Knowlton acquired Gray & Co., Fitz-Pegado rose to the post of senior vice-president for international affairs.



Fitz-Pegado worked for Haiti's Duvalier and arms dealer Khashoggi

But in 1992, she found herself at the center of controversy for representing Kuwait's ruler. A year earlier, she helped prepare a 15-year-old Kuwaiti girl to testify anonymously to Congress. The teenager said she had seen Iraqi soldiers remove Kuwaiti babies from hospital incubators. The girl helped build the support for the U.S. intervention in the Gulf war that Kuwait wanted.

But a Kuwaiti government commission in 1993 couldn't fully corroborate the testimony. And the girl, it turned out, was the daughter of the Kuwait ambassador to the U.S. "I had no reason to question the veracity of the child's testimony," says Fitz-Pegado, who adds that it was consistent with other reports of abuses at the time.

Still, some Senators have qualms about Fitz-Pegado. Commerce Committee Chairman Ernest F. Hollings (D-S.C.) delayed her confirmation, while some Democrats hoped in vain that Brown would pull the plug. Now, after a full year of racially insensitive remarks made in December, Hollings is balking at holding up a black nominee.

Nonetheless, Fitz-Pegado's confirmation would raise questions about the key Clinton pledges: to staff Commerce with an elite cadre of export experts and to clean up the lobbying mess. To her critics, Fitz-Pegado's nomination just shows the gap between Clinton's rhetoric and some of his actions.

By Douglas Harbrecht in Washington

THE BUDGET: CLEAR GOALS, DECEPTIVE MEANS

The test of any budget plan has always been: 'How many programs do we eliminate...?' In this budget, we're proposing about 115."

—Budget Director Leon E. Panetta

Panetta is right—up to a point. When graded on the Panetta scale, the Clinton Administration earns some high marks for using the budget to set priorities for the government. Recent GOP budgets offered gimmicks such as across-the-board freezes rather than making Darwinian choices among competing programs.

President Clinton's modest attempt to tilt his fiscal 1995 budget toward "investment" is also praiseworthy for its novelty. Programs that have outlived whatever usefulness they once had, including low-income heating assistance, employment grants for teens, and block grants for community services, all face cuts in order to fund increases in Head Start, the Job Corps, aid to the homeless. Clinton earmarks \$2.4 billion to hire more cops and build more prisons. Call this category "vision," and give the President a for boldness.

But boldness alone does not make an edible budget, and in many other categories, Clinton has not been working up to full ability. The fiscal plan delays tax increases and fails to give a full accounting of his plans for welfare reform, for the health-care overhaul, and for a restructuring of the nation's defenses.

FISCAL MUDDLE. Clinton could certainly have worked harder on honesty. Only by the sorry curve established by the Reagan Administration does Clinton rate even a D. The White House's chief economist, Laura D'Andrea Tyson, deserves praise for not relying on rosy economic forecasts to ease deficit reduction. But the budget ranks other tests: Welfare overhaul, promised by President Clinton in his State of the Union message, is scarcely mentioned. It appears to cost nothing, even though experts expect a tab of at least \$10 billion a year. And health care is a fiscal muddle,

thanks to the pretense that most of its cost needn't appear on the budget. The Congressional Budget Office bought into none of this, insisting in a Feb. 8 report that the plan would result in a deficit increase of \$70 billion over the next five years—not a reduction of \$58 billion as claimed by Clinton (page 36).

Institution economist Charles L. Schultze, budget director in the Johnson Administration. Clinton aims to raise such charges by \$8.4 billion over five years, hiking meat-inspection fees, Federal Housing Administration mortgage fees, and national park fees, among others. But the Clintonites apparently plan to spend this money rather than use it to cut the deficit.

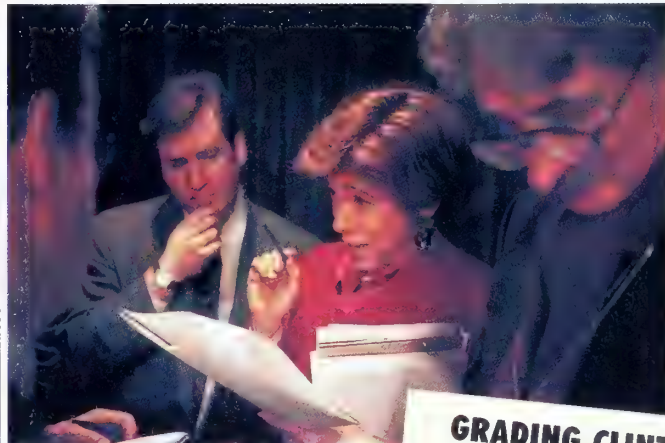
DREADFUL FACT. Despite the axing of some arms programs, the Pentagon budget is also riddled with deception. The Administration admitted weeks ago that its proposed five-year spending left the military \$30 billion short of what it needed to pay for the strategy laid out by former Defense Secretary Les Aspin. But the budget adjusts neither the programs nor the funding.

Deficit reduction is another disappointment. The deficit as a share of the overall economy is projected to fall from 3.5% in the current year to 2.3% in 1996-99. But the dreadful fact is that the flow of red ink isn't slowing as much or as fast as it should. Total federal debt as a share of gross domestic product continues to grow, from 70.4% in 1994 to 72.1% in 1999. "This is our window of opportunity to get the deficit down—during

an economic expansion," says Martha Phillips, executive director of the Concord Coalition, which advocates a balanced budget. The grade: B-.

The really tough issue—cutting entitlement spending—remains. And the old tricks the Administration has stooped to in an otherwise admirable effort to keep a lid on spending may deprive Clinton of the credibility he needs for the budget struggles ahead.

Magnusson follows the economy from Washington.



NO FUDGED FORECASTS: TYSON AT A FISCAL BRIEFING

Tax hikes and other unpleasantnesses are either ignored or buried under such euphemisms as "other revenue effects." For example, the Administration knows it must find \$11 billion to offset the five-year loss in tariff revenues agreed to during last year's multinational trade negotiations. But that consideration is not in this budget. The Clintonites assume that tax breaks, such as the research-tax credit, will be allowed to die at yearend. But Clinton, like Presidents Bush and Reagan, will probably back renewal. Similarly, there is no mention of the Superfund, which the Administration intends to overhaul with a \$3.1 billion tax on insurers.

The Administration gets high marks for proposing increases in user fees. Making users pay for government services "is the best way to determine if people really want and need the services being provided," says Brookings

GRADING CLINTON'S BUDGET

VISION Clinton is following a clear plan, emphasizing key areas such as investment in education and training

B

HONESTY The budget lacks details on welfare reform and health-care financing, creating huge uncertainties

D

DEFICIT REDUCTION Deficit as a share of the economy finally registers a decline, but total debt still grows

B-

DATA: BUSINESS WEEK



CLINTON AND EX-SURGEON GENERAL KOOP FLANK CANCER PATIENT DANIEL LAWRENCE

CLINTON'S HEALTH PLAN HITS THE GROUND LIMPING

But the Administration remains confident that it has grass-roots support

The launch from hell," they're calling it in Washington. Just days after President Clinton declared health-care reform to be at the top of his 1994 agenda, a string of embarrassing blows has sent the initiative into the sick ward.

First, the nation's governors refused to endorse his proposal. Then, three major business groups, targets of a year-long courtship, rejected his scheme. Finally came a poison-pen message from the Congressional Budget Office, which figured the program would cost billions more than planned.

But if the Clintonites are downhearted, they're not showing it. "These are just the opening moves in a very long and complicated chess game," says senior adviser George R. Stephanopoulos. While the President may be taking a shellacking inside the Beltway, his core promise—universal coverage—is supported by about 80% of Americans. And as pressures build to trim the scope of his 1,342-page legislation, many Clinton aides are confident they can win enough

of the key points to call whatever Congress ultimately adopts a victory.

Clearly, though, the attacks give fodder to the plan's opponents. White House strategists—from the President and Hillary Rodham Clinton on down—now appear ready to compromise on many points that look politically untenable. Says a senior Administration official: "All options are open." By adopting such flexibility, the White House risks losing control of the President's No. 1 domestic issue. The morass of competing interests on Capitol Hill could leave the entire effort bogged down. And scaling back some of the Administration's more ambitious ideas, such as price controls, could mean Clinton may also have to renege on his promise of generous benefits for everyone—or raise taxes to pay for it.

Such cutbacks are just what business groups are seeking. The Business Roundtable, the U. S. Chamber of Commerce, and the National Association of Manufacturers have rejected Clinton's price controls and his requirement that all employers insure their workers.

These groups had held out the prospect of endorsements—if the Administration offered concessions on such central concerns as the richness of the benefit package and the freedom of big companies to avoid regional "health alliances."

Corporate leaders contend that the Administration never followed through on promises to address their concerns. "The dialogue went on for six months and we had nothing tangible to show for it," says NAM President Jerry J. J. inowski. The Business Roundtable threw its support to a rival plan offered by Representative Jim Cooper (D-Tenn.), which would eschew mandates and price controls in favor of relying on market competition to keep costs down.

TAX SPECTER. Business' campaign to moderate the Clinton plan received a boost from an unexpected source on Feb. 10. CBO Director Robert D. Reischauer told Congress that the premiums business firms would have to pay for employee coverage should be considered taxes—raising the election-year specter that reform could be portrayed as a multibillion-dollar tax hike. True, Reischauer also acknowledged that, in the long run, the President's program could reduce the federal deficit. Still, the CBO chief's pronouncement strengthened the hands of Republicans and moderate Democrats who back more modest insurance reforms.

With its plan under attack inside the Beltway, the White House is unleashing an all-out effort to get its message heard on the hustings. The Democratic National Committee, similarly, is spending about \$4 million to keep pressure on districts and states of House and Senate members with key votes. "This is not a fight that's going to be won inside Washington," says one White House aide. "This will be between the American people and their representatives."

Clinton figures he's holding an ace: the public's support for guaranteed benefits for everyone. There's a trap, though. If the strategy depends on creating public clamor for major reform. If bad-news numbers and business anger force him to scale back too much, he will have to answer an electorate with lofty expectations.

By Susan B. Garland and Mike McNamee in Washington

CUTTING A DEAL ON HEALTH CARE

EMPLOYER INITIATIVES

Clinton's Plan Companies pay for 80% of federally designed package of health benefits

Business Roundtable Companies pay for 50% of a scaled-back package of benefits

PREMIUM CAPS

Set a legal limit on increases in insurance premiums

Allow increases, with a threat of action if costs are not kept in check

HEALTH ALLIANCES

Companies pay into state alliance offering individuals coverage

Alliances would be voluntary and would cover only smaller employers

AVE YOU DRIVEN A FORD LATELY -IN JAPAN?

e carmaker is aiming for 5% of the market. Seriously

Konen Suzuki, the president of Ford Motor Co. (Japan), likes to make sweeping statements. The latest: "This is the year we start writing new history of Ford in this country." Can Suzuki be serious? Sure, Ford was once a major player in Japan—before Pearl Harbor. But in recent months Ford has had only a bit part. Imports dipped as low as 2,959, a microscopic share of the market, in 1991. Now, sales of imported Fords are up, to 5,407 in 1993. But with such a dismal record, it seems the only poster left to write would be the final one.

But wait. Although Ford has precious few cars in Japan in an last year, that number was nearly 50% ahead of 1992. And 1994 started with a 2% leap in January sales compared with the same month the year before, with discounts selling especially well. Pretty good in a badly depressed auto market. Ford has just launched a splashy, multimillion-dollar ad campaign for Taurus Wagons and Explorers on television and newspapers, pushing the vehicles as fun, family cars.

WYN PRINCE. And in a first for Detroit's Big Three in Japan, Suzuki has coaxed one of the largest Nissan dealers to offer Fords at a number of outlets. Suzuki thinks he can add up an additional 1,000 Ford dealers by 2000. It would hugely expand reach beyond the 300-dealer network that the Dearborn (Mich.) company already owns with Mazda Motor Corp. Even in that dealership, the ad has shifted. For years called Auma, to disguise the relationship, the work will now go boldly by "Ford." Maybe Suzuki's goal of winning Ford of the Japanese auto market—roughly 200,000 Fords, half imports—isn't quite so crazy as it appears at first glance. Certainly, Ford has momentum: In Feb. 9, it reported a smart \$719 million profit on worldwide sales of \$27.8 billion for the fourth quarter, reversing

an \$840 million loss a year before.

And if anyone can pull this off, it may be Suzuki, who never quite fit the mold of the typical Japanese salaryman. Raised in a Buddhist temple by a family of farmers, teachers, and priests, Suzuki opted for business, signing on in 1961 with Toyota Motor Corp. Early on, he boosted the sales of the Crown, a stodgy black sedan used to chauffeur bigwigs,

sums up his decision this way: "I couldn't resist. I'm the kind of person who gets seasick in calm waters."

Turning Ford into a Japanese best-seller would be rough going for anyone. Japanese consumers still equate Detroit-made cars with poor quality. And Detroit hasn't improved things much with a largely half-hearted, ill-organized approach to selling in Japan. But Suzuki thinks this is the moment for Ford. The company's cars are more reliable, less expensive, and get better mileage than in the past. Ford is showing sensitivity to the Japanese motorist by becoming first among the Big Three to import right-hand-drive passenger cars.

THINKING LOCALLY. Suzuki figures if he can get enough Japanese to try Ford cars, through the ad campaign and competitive pricing, they will discover they like them. For one thing, Ford is discounting some models up to 10% and matching the Taurus' price tag with those of competing cars.

And the ads will target Japanese customers' preference for roomier cars for family outings and recreation, for more fuel economy, and for more service than many of its local rivals provide. "The gap between perception and reality provides the market opening," he says.

Suzuki also thinks Ford is finally learning how to meet local needs. Shortly after moving to Ford, for example, he found a history of Taurus owners complaining about broken steering hoses and malfunctioning fuel pumps. Digging some more, Suzuki found these parts weren't up to the constant stopping, starting, and turning on Japan's narrow, twisting roads. Ford executives had never seen such wear and tear and were inclined to dismiss the complaints. Yet Suzuki badgered them to address the problem and finally got permission to order a recall, Ford's first in Japan—and further recalls if needed.

So far, Ford is glad for such instruction from Suzuki. "He's taught us a lot of the basics of [Japanese] business," says Alan D. Gilmour, Ford's vice-chairman in Dearborn. Now, Suzuki just has to teach his countrymen that Ford has what it takes in Japan.

By William Spindle in Tokyo, with James B. Treece in Detroit



by painting it white and convincing ordinary Japanese they could own a Crown, too. In 1972, he came to the U.S. to sell the Corolla, just after it was named Lemon of the Year by a car magazine. Eventually, Suzuki helped turn the Corolla into a U.S. favorite.

Then, in 1991, Suzuki stunned his superiors by jumping to Ford. His defection was such a rarity that Toyota's in-house newsletter published a lengthy interview to find out his reasons. Suzuki

WILL MTV HAVE TO SHARE THE STAGE?

A new rival, run by record companies, may be its first serious challenger

Was there ever a better week to get out of town? With a snowstorm bearing down on New York City and with corporate parent Viacom Inc. slogging through its endless battle for Paramount Communications Inc., 200 of MTV Network's staffers escaped to sunny Puerto Rico on Feb. 7 for a management retreat.

But while the poolside banter focused on blue-sky topics, such as how the network of *Beavis & Butt-head* should harness multimedia technology, MTV executives couldn't elude the *Sturm und Drang* back home.

That's because Barry Diller has pulled the music-video channel into the take-over fray. With final bids for Paramount on the table, the chairman of QVC Network Inc. and his advisers are lobbying shareholders to choose QVC's offer. It's a tough pitch, given that Viacom is offering more cash. But one of Diller's arguments is that MTV faces daunting competition from a new music-video service backed by four major record companies. With its crown jewel under siege, the stock of a combined Paramount-Viacom could languish. "This announcement is the end of MTV," says a Diller adviser.

A NEW OPEC? Such predictions may seem like wishful thinking: MTV currently beams Beavis and Bruce Springsteen into 252 million households in more than 80 countries. And rival networks have sprouted like dandelions without crowding out the original (table). Yet MTV executives are taking the latest entry seriously, mainly because its backers include Time Warner, Sony, PolyGram, and EMI Music. Together, these companies supply 63% of MTV's music videos. "You've got to wonder whether this is going to become the OPEC of the music industry," says Thomas E. Freston, chairman of MTV Networks. "It's unusual when people who are fierce competitors

band together to compete with you."

Time Warner Inc., Sony Corp., and their partners are anxious to dispel notions of a music cartel. In announcing the service on Jan. 31, the companies said they would continue to license videos to other channels, presumably including MTV. Says one executive involved in the venture: "We and MTV can

and should start singing and selling the end of the year.

It isn't the supply of videos that MTV worried, though: It's the price. Currently, Viacom pays record companies a nominal fee for exclusive access to certain videos and no fee at all for many others. For the record companies, *quid pro quo* is the valuable exposure their artists receive. Recently, though, record execs say the companies have been seeking more than free publicity. With its preeminent market position, MTV has generally been able to brush off such requests. But a major new rival could weaken its negotiating stance.

FOREIGN CLONES. The record companies say they simply want to create another venue for their performers. But be-

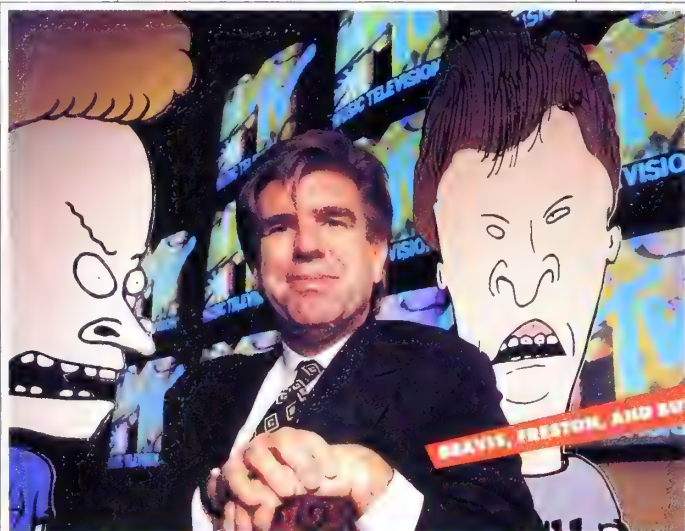
lieve the corporate level, executives at labels—even those owned by Time Warner and Sony—are lining up against the new channel. They fear MTV will favor videos from record companies not affiliated with the rival service, which would cut off their access to valuable promotional exposure. "Do you really want to risk your core business for a business that will take years to develop?" asks a prominent record label executive.

In the end, the enormous cost of building a worldwide music-video channel may protect MTV's franchise. "In Europe and Asia, every shoe-TV station has started an MTV knockoff," says Porter B. a media banker at Ladenburg Thalmann & Co. "It doesn't matter to the grandfathers. To duplicate MTV's broad reach and brand identity, it says, would require billions."

Some music executives say that's not the industry's greatest worry anyway: What the record companies really want, they contend, is a piece of MTV. After all, MTV and its sister network, VH-1, should generate \$395 million in revenues in 1993, a 22% gain over 1992. With such hot acts as Stone Temple Pilots and Bl

Melon, the record companies feel partly responsible for this success. And they're threatening to start their own channels they might be able to pressure Viacom. Diller has a point when he says everybody is gunning for MTV. But he should probably avoid explaining why.

By Mark Landler in New York



THE BEAT GOES ON, AND ON

MTV's burgeoning roster of rivals

TIME WARNER, SONY, POLYGRAM, EMI	Music-video service for U.S. and Puerto Rico starts in late 1994
BERTELSMANN AND TCI	Hybrid music-video and home-shopping network, starts by the end of 1994
COUNTRY MUSIC TELEVISION	Country music videos, 19.6 million subscribers
THE BOX	Video jukebox, featuring pop, rock, and other music, 16 million subscribers
MOR MUSIC TV	Videos, which viewers can order from home, 7 million subscribers

DATA: COMPANY REPORTS, NATIONAL CABLE TELEVISION ASSOC.

coexist in this expanding market, both at home and overseas."

Already, the four companies are running a rival channel, called VIVA, in Germany. Meanwhile, German record company Bertelsmann Music Group is planning yet another service with Telecommunications Inc., the nation's largest cable operator. That channel will combine music videos with home shopping

COKE, MARKETING IS IT

strategy shift, chief salesman
nan downplays advertising

Even as Coca-Cola Co. marketing chief Sergio Zyman unveiled his new, estimated \$600 million "Always Coca-Cola" global ad campaign on Feb. 7, he had more than polar bears on his mind. "We do think marketing is synonymous with advertising," Zyman told New York's Madison Avenue cognoscenti at the announcement. Simply put, Always Coke doesn't always mean advertising. In fact, one of the world's biggest advertisers is deemphasizing traditional print and TV plugs, focusing instead on an arsenal of new marketing strategems. Among them: a Coke-produced television program that ran before the Super Bowl and interactive in-store promotions. So far, frequently skeptical bottlers love it. "I think it will work. The reactions are it will," says Bobby Wilkinson, chairman of Huntsville Coca-Cola Bottling Co.

PUTERS

IBM'S SAD MEMORIES

mainframe data storage unit
besieged by more agile rivals

Next month, when IBM sends shareholders its 1993 annual report, one of Big Blue's most troubling problems will be hard to discern in the numbers. Salomon Brothers analyst John B. Jones Jr. figures that IBM's disk- and tape-drive unit—results of which aren't broken out in the report—fell almost \$2 billion last year, to \$4.5 billion, down nearly 50% from the 1990 level (chart). Other analysts figure the unit probably is barely eking out a profit. IBM, until a few years ago the dominant force in large disk drives, hoped to halt its slide last year when it brought in Ed Zschau, an entrepreneur and former U.S. congressman, to turn things around. Zschau hasn't had the right mix of products to work with. So Big Blue continued to hemorrhage market share, dropping from 60% to

This new tack comes from a company whose recent marketing has lacked a certain carbonation. Its 1990 "Magician" promotion fizzled when specially constructed containers didn't work. An ad campaign for diet Coke, with the tagline, "Taste it all," died quickly, leaving the brand with no advertising for nine months last year.

Meanwhile, in its bitter fight for preeminence in the slow-growing cola market, Coke's Classic and diet Coke brands are just barely maintaining market share (chart). And sales of iced teas, flavored waters, and other "alternative beverages" grew 80% during 1993, estimates John C. Maxwell, an analyst at Wheat, First Securities Inc.

"BACKSTAGE PASS." To compete, "Coke is now becoming more of a guerrilla marketer," says Tom Pirko, president of industry consultant Bevmark Inc. Take last month's Super Bowl. Coke paid about \$250 million for rights to sponsor the game as its "official soft drink" for five years. But the company didn't air a single commercial during the year's

most-watched television event. Rival Pepsi, meanwhile, poured \$7.2 million into game-time ads.

Instead, Coke put less than \$1 million into Coca-Cola BIG TV—seven hours of pregame entertainment programming aimed at giving viewers a "backstage pass" to the Super Bowl. Hosted by CBS broadcasters Pat O'Brien and Terry

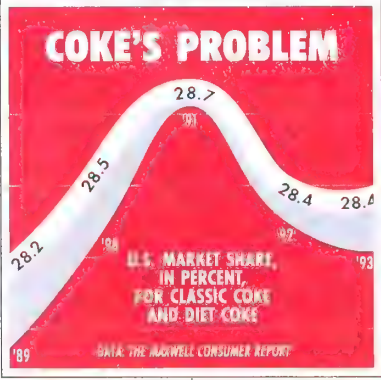
Bradshaw, BIG TV was delivered to 40 million cable subscribers.

In-store promotions and displays are being revamped, too. Coke is rolling out new "fast-lane merchandisers" that sit next to gum and candy racks, tempting shoppers with ice-cold Coke as they check out. A fall event, "Monsters of the Gridiron," encour-

aged shoppers to pick up six-packs and then dial a toll-free number to hear a recorded local National Football League hero.

Does that sort of stuff really sell soda? One satisfied bottler says he logged "tens of thousands" of calls during the promo. If it doesn't fly, Coke still has its "Always Coca-Cola" polar bears.

By Maria Mallory in New York



47% of the mainframe disk-drive market, according to researcher Meta Group. Now, new products have fallen behind schedule, and IBM risks losing even more share this year.

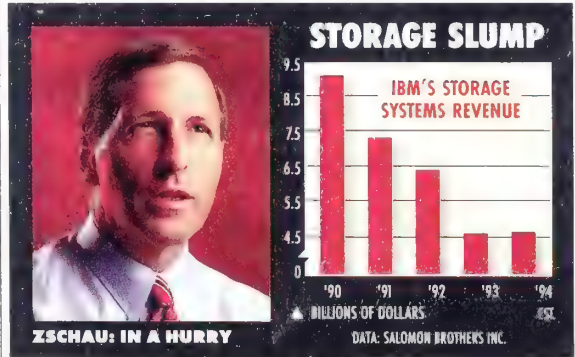
ICEBERG SLAM. Most of the lost business has gone to EMC Corp., a Hopkinton (Mass.) upstart. EMC is the only supplier of mainframe disk arrays, an emerging technique for stringing together smaller—and cheaper—disk drives to function as a single large disk. And there is even more serious competition on the horizon. Storage Technology Corp. may finally get its long-delayed—and potentially superior—Iceberg disk-array system to market by midyear. "If STC gets Iceberg out the door, it will be devastating," says Nick Allen, an analyst with Gartner Group Inc. One reason: IBM's own mainframe array—which Big Blue expected to ship

in large volumes by midyear—has now been delayed until yearend.

With sales tanking, Zschau is racing to cut costs. He has already consolidated manufacturing facilities from nearly a dozen at the start of 1993 to four. That has helped pare 3,000 jobs from the payroll, bringing the work force to 12,000. He also plans to boost sales by selling add-on drives for PCs directly to consumers and is targeting sales to other computer makers. Meanwhile, he has pushed IBM to skip a product generation and go right to 3.5-inch drives from its clunky 10.8-inch models. "They're doing a heads-up job of modernizing the product line," says independent analyst James Porter.

It all adds up to a heck of a continuing challenge for Zschau. An amateur songwriter, he tried to pump up morale recently with a ditty. With Chairman Louis V. Gerstner Jr. visiting the San Jose (Calif.) headquarters of the disk drive division, employees warbled to the tune of *Getting to Know You*: "We're ... Grateful to you, Lou, for leading the new revolution. Principles you set, following closely are we." Now, everyone at IBM is just hoping Zschau's turnaround plan is better than his composing.

By Ira Sager in New York



ZSCHAU: IN A HURRY



**HOW AIG'S ABILITY TO CONTROL FINANCIAL RISKS PUTS
ONE AIRLINE ON A STRAIGHTER COURSE.** *An airline's first-ever energy*

hedge in jet fuel, using a series of fixed-for-floating-rate transactions. It's no blue-sky idea but how we recently helped
a major U.S. carrier manage risk. Since the airline's international operations generate a multiple-currency revenue



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CITY GOVERNMENT



GIULIANI: MANY ECONOMISTS SUPPORT HIS PLANS TO BOOST PRIVATE-SECTOR JOBS

RUDY REVS UP THE CHAINSAW

Can New York's Giuliani cut the fat like other U.S. mayors? Just maybe

Rudy to bureaucracy: Get small. That's the essence of New York City Mayor Rudolph W. Giuliani's budget plan, unveiled Feb. 2. The city's first Republican mayor in a generation, Giuliani aims to eliminate a looming \$2.3 billion deficit. His plan: reduce spending, shrink the city's work force by 15,000, trim New York's vast bureaucracy, and cut some business and resident taxes. The goal is to bring city spending and revenues into balance and reinvent government by boosting productivity.

The downsizing drive faces daunting obstacles. New York supports a huge social-welfare safety net. Its unions are powerful, its bureaucracy entrenched, and its politics balkanized. But Giuliani is far from alone. From Philadelphia to Indianapolis to Houston, reform mayors of both parties are battling sclerotic bureaucracies to create more entrepreneurial, responsible governments.

Indeed, many city governments are in the throes of a reform struggle not seen since the Progressive movement forced out the machine politicians of Tammany Hall. The ideas of

these latter-day progressives are largely borrowed from Corporate America, concepts such as total quality management and work-force reengineering—not to mention competition. Says Theodore Hershberg, professor of public policy and history at the University of Pennsylvania: "We are going through a fundamental transformation of how big-city government works."

There's ample and urgent reason to shrink municipal government. Federal and state financial support has dwindled. The middle class is fleeing prohibitive taxes and high crime for the suburbs. And businesses are leaving for cheaper quarters. In the race for jobs, big-city government is an expensive competi-

tive disadvantage. "It's all about stemming the exodus from the urban area and increasing the tax base," says Robert C. Lanier, mayor of Houston. And Stephen Goldsmith, mayor of Indianapolis, "People have to understand that our regulations and bureaucracy cost jobs."

Look at New York City. The U.S. economy began to pick up in mid-1991, but the city's upturn didn't emerge until another year. Since 1987, total private-sector employment declined by nearly 360,000 jobs, even as the total municipal work force rose by 15,000, according to the city's Office of Management & Budget. "The municipal work force is too big relative to our economy," says Abraham M. Lackman, director of New York's OMB.

PHILLY STORY. Many economists believe overhauling government will help rejuvenate New York's private-sector economy. Certainly, municipal reforms are working elsewhere. In 1992, Philadelphia Mayor Edward G. Rendell wrung wage benefit, and work-rule concessions from public-employee unions after a 16-hour strike. He has begun hundreds of productivity-enhancing initiatives and opened up some city services to competition. "The unions in Philadelphia now know their long-run survival depends on being competitive with the privatization alternatives," says Robert P. Inman, economist at the University of Pennsylvania.

Of course, the city workers who will bear the brunt of Giuliani's goal of reducing the size and scope of government oppose such measures, even though much of the work-force cuts will be accomplished through attrition and severance payments. Opposition is also strong in many lower-income neighborhoods that will feel the service cuts the most. And even the mayor's sympathizers question the wisdom and divisiveness of many specific budget proposals.

No question, downsizing government won't be easy. Yet "New York does have any choice," muses Goldsmith.

Indianapolis. "If New York lapses back to old ways of doing things, wealth will continue to move, and the city will eventually collapse itself." The economics of competition are inescapable: New York and other big cities can no longer live beyond the means.

By Christopher Farrell in New York, with Joseph Weber in Philadelphia and Kate Mulvaney in Houston

THE ENTREPRENEURS OF GOVERNMENT

INDIANAPOLIS Stephen Goldsmith (R)	Since 1992, over 40 government services have been opened to the private sector, saving \$100 million. Now, the city is focusing on streamlining regulations, reengineering its work force.
PHILADELPHIA Edward Rendell (D)	Faced down labor unions in 1992, winning wage and benefit concessions. Philly also overhauled the employee health-care system and privatized some city services. Annual savings: \$257 million.
PHOENIX Frank Fairbanks (I)	The granddaddy of big city privatization, Phoenix initiated a program more than a decade ago. It is pushing decentralization, as well as competition between city agencies and private firms.

DATA: REASON FOUNDATION, BUSINESS WEEK

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EDITED BY KEITH H. HAMMONDS

SCULLEY VS. SPECTRUM: DOES ANYBODY WIN?

John Sculley's resumé isn't what it used to be. On Feb. 7, the former Apple Computer chief executive abruptly left his post as CEO of Spectrum Information Technologies after just four months. In a \$10 million suit filed against Spectrum President Peter Caserta, Sculley claimed he had not been told of a Securities & Exchange Commission probe into Spectrum nor of "highly questionable" accounting practices at the company. In response, Spectrum filed a \$300 million countersuit, claiming Sculley breached his five-year contract and his fiduciary duties.

Sculley, it says, talked of resigning as early as Dec. 7. Spectrum attorney Christopher Franco says Sculley's actions "tremendously damaged" the company. Sources say Sculley already has been approached about other jobs.

SOUND AND FURY OVER DATA ENCRYPTION

Angry U.S. software publishers will try to persuade Congress to overturn the Clinton Administration's Feb. 4 decision to continue tough controls on the export of encryption technology. The CEOs of eight major software companies had lobbied Vice-President Al Gore with a Feb. 2 letter aimed at winning the right to freely export programs that use the popular Data Encryption Standard to protect the privacy of files or communications. But, yielding to the pleas of national-security and law-enforcement officials, the White House decided to back Clipper, a system that uses a special computer chip to encrypt data—and permits federal agencies to read the encoded messages.

SMILE—TOMORROW'S CAMERA IS COMING

It has been in the works for years. And on Feb. 8, five photo heavyweights announced they had reached an accord on a common design for a new film and camera format that could make today's gear look clunky. It will be at least two years before the new system reaches consumers. And the five partners—Eastman Kodak, Fuji, Canon, Nikon, and Minolta—are keeping mum about details. But sources say the format will be built around a new, pop-in film cartridge about the size of an AA battery, using a new ultrathin polyester material instead of acetate. Analyst Peter Enderlin at Smith Barney Shearson

HEADLINER

JUST BLAME THE NEW BOSS

Quite a homecoming for George Garrick. The executive leaves market researcher Information Resources in June for archrival Nielsen Marketing Research, only to return four months later to head IRI's North America division. Almost immediately, Garrick takes the heat for IRI's surprisingly weak earnings.

On Feb. 3, IRI halved its estimates for fourth-quarter earnings; later it acknowledged that Bristol-Myers Squibb, a big client, was moving to Nielsen. IRI's stock dropped 30% in two days, to 25¢. The company's explanation: Garrick, while at Nielsen, sweet-talked several

large accounts that otherwise would have defected to IRI.

Not everyone buys that. Dean Witter Reynolds analyst James Dougherty contends that IRI "stretches credibility by blaming the four-

quarter woes

Garrick. The company's prospectus, he says, will "diminish" the fact that Nielsen was making a comeback. And David Flaschen, who replaced Garrick

Nielsen, scoffs at IRI's

explanation: "The momentum started before Garrick came over. This is not a one-quarter phenomenon." As for Garrick, he simply says he's glad he left Nielsen. Now he wants his clients back.

By Greg Bur



figures the format could stimulate film sales by one to two percentage points a year.

IN CANADA, THEY'RE CUTTING SIN TAXES

Even as President Clinton proposed quadrupling the U.S. cigarette tax, Canada slashed its taxes on smokes, reducing its \$2.69-per-pack tariff by up to \$1.82 on Feb. 9. Ironically, Clinton cites Canada as an example of how high taxes can curb smoking: Consumption there has dropped almost 40% in the past decade. But Canadians continue to buy cheaper smokes smuggled from the U.S. Lower taxes, Canada hopes, will shut down the smugglers.

THE 486 CHIPS AWAY AT THE CHIP MARKET

The microprocessor war rages on. With Intel expected to introduce faster,

cheaper versions of its Pentium and 486 chips, Digital Equipment agreed on Feb. 8 to produce 486 clones for Advanced Micro Devices at its DEC plant in Scotland. DEC's own Alpha chip has been a slow starter, so the two-year deal absorbs capacity. DEC expects to turn out 2 million 486 chips annually by June, 1994. IBM is committing more production lines to 486 clones, too: *PC Week* reports it has agreed to build 1 million 486 clones for Cyrix. IBM and Cyrix declined to comment.

ET CETERA

- Sears posted a profit, but not as big as analysts had expected. Its stock dropped.
- Compaq unveiled "Aero," a hot sub-notebook PC. Its low price should bring big sales.
- Ending a scattered one-day strike, UPS reached an agreement with the Teamsters.
- Courting business travelers, USAir cut East Coast air fares by up to 70%.

CLOSING BELL



HUMANA'S STOCK PRICE

A HEALTHY STOCK AMID REFORM BLUES

Chaos in the health-care industry has done wonders for stocks of managed-care companies. The biggest winner: Humana, which spun off its hospital operations last March. Since then, its shares have tripled. Humana, like other HMOs, is attractive because it thrives on reducing customer health costs. But it also has ratcheted up profits: Administrative and medical expenses are down, and enrollment in its managed-care plans is picking up. It hasn't hurt that CEO David Jones has aggressively bought more than \$50 million worth of stock in the past year.

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THE

REUTERS DIVES IN— ALL THE WAY

It's expanding fast into the risky world of multimedia

It was late 1992, and Peter Job, CEO of Reuters Holdings PLC, had a \$1 billion dilemma. Reuters, known around the world for its accurate, up-to-the-second financial news and numbers, had \$1 billion in cash. But it had nowhere to invest it—at least, nowhere that would top the rates Reuters could get by leaving its money in the bank.

Worse yet, the future didn't look promising. Recession had dampened financial markets, the source of most of Reuters' profits and growth. Europe's single-currency drive threatened to dry up Reuters' cash cow, trading screens for foreign-exchange dealers. And competitors ranging from scrappy Bloomberg Financial Markets to Dow Jones & Co.'s Telerate were eating away at Reuters' market share.

Not happy watching the glory days fade, Job, 52, went on the attack. He ordered his crew of 15 top executives to do whatever they had to do to retain market share until things turned around, but he also gave the go-ahead for a move that could forever change the face of the 143-year-old news giant. Reuters, you see, is going multimedia.

"SEED CORNS." Over the past year or so, Reuters has embarked on a global buying spree, snatching up all or parts of 25 companies in everything from personal finance to Spanish-language satellite TV and medical information (table). These new ventures will severely test Reuters' ability to move beyond the familiar banks, brokers, and media companies that have been its clients for a century. Job is now aiming at a much bigger but more diffuse market, personal computer users around the world. "There's nothing wrong with the core business," says Job. "But it makes sense to scatter a few seed corns around."

As luck would have it, Reuters is plunging into these new waters just as its core market is coming back. Currency trading is booming again as Europe's exchange-rate grid has fallen apart, creating anew the need for foreign exchange screens. And financial institutions are roaring back to profit, boosting

the sale of Reuters terminals and data feeds. So last year, Reuters' pretax profits surged 15%, to \$651 million.

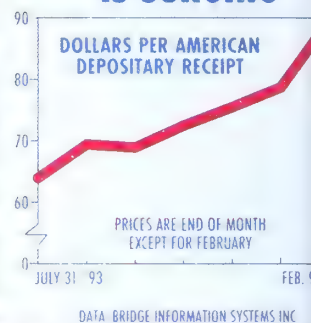
It also still has \$650 million in cash, despite spending \$475 million on a share-repurchase plan last summer. "There are no wrinkles in their armor," says Paul Norris, a Barclays de Zoete Wedd media analyst in London. Indeed, analyst Neil Barton of Merrill Lynch & Co. sees Reuters' profits jumping 20% annually for the next two years.

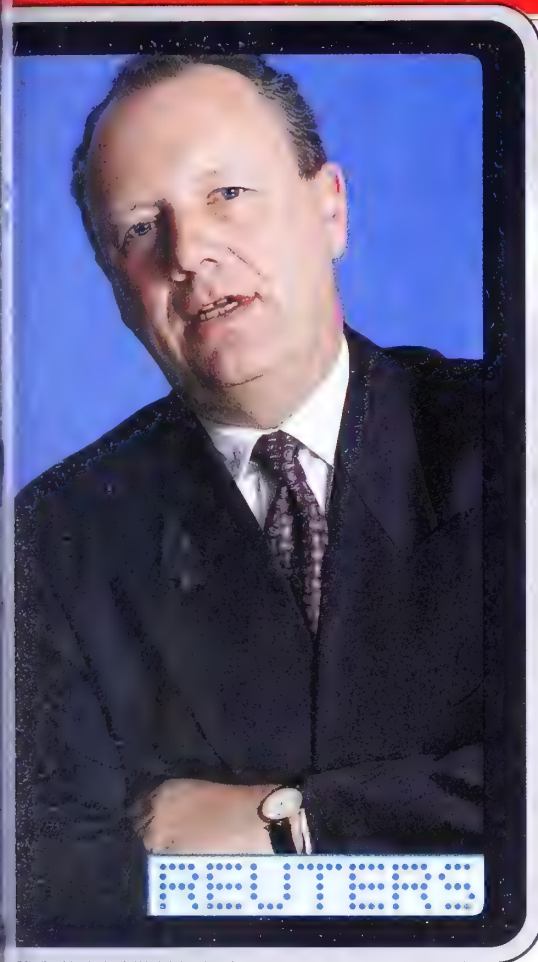
Reuters' cash hoard is permitting Job to plunge into the exciting but shark-infested waters of multimedia, where text, video, and sound are blended into a seamless package. Unlike such American multimedia players as Bell Atlantic Corp., Job doesn't want to own telephone or cable networks or provide the latest Hollywood hits. Instead, Reuters is focusing much of its efforts on providing the high-margin intellectual content that the electronic pipelines of the future will carry—and that traders, investors, and executives will pay to receive. Says Job, gesturing with his hands as if playing an imaginary piano: "Reuters is in the information business to make money."

For a while, however, making money off multimedia may be a tough slog. Much of management's attention will go into expanding its recent acquisitions, enhancing them with pictures, and deciding which to put on line to PCs and which to send down its existing network of 250,000 terminals. For example, Reuters has moved into the adver-

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REUTERS STOCK IS SURGING





nancial Information Services Group.

Sometimes, however, Reuters itself is buying the network. In December, it announced a deal to buy the ailing Quotron stock-quote system from Citicorp. No price was disclosed, but Reuters is widely believed to have paid little if anything for the division, which lost \$33 million in the first nine months of 1993. The deal strengthens Reuters in the U.S. equity market, where it had just 5% of the quote-terminal market.

Reuters' most visible push of all, however, is in multimedia. Reuters is even looking to add a video component to as many existing text products as possible. "If you insist on not giving a person video, somebody else will," says Job. Reuters has state-of-the-art video capabilities through Reuters Television, which provides raw film footage to Cable News Network, British Broadcasting, and other news channels. It already has film crews in 38 countries and production studios in most major cities. Throughout

the next year, Reuters' 1,000 print correspondents and television crews will move in together.

In the London newsroom, which workers are readying for the integration of the staffs in six weeks, a studio with a fixed camera will occupy a corner where correspondents sit at terminals. And the video, Job hopes, will go via digital feeds directly to currency traders via Reuters Financial Television (RF-TV), which debuts this summer.

Job says he wants to pipe Bundesbank news conferences straight to traders, letting them buy or sell even as President Hans Tietmeyer is appearing

on a window on their PCs. Or when the Federal Reserve Board adjusts interest rates, a London correspondent will be able to analyze the domino effect on European markets. If RF-TV flies, the system will expand to the U.S. and Asia.

But in America and Europe, Reuters is already a TV heavyweight. It provides a one-hour news package for GM-TV, the morning talk show on the lone independent channel in Britain, and feeds daily reports from London to Miami for the Public Broadcasting System's *Morning Business Report*. Later this year, it will begin airing TeleNoticias, a Spanish-language CNN offering 24-hour news and entertainment over satellite to viewers in Latin America, the U.S., and Spain, in partnership with Telemundo Group Inc., the Spanish-language TV network. It has launched "video on demand" experiments with Bell Atlantic and Nynex Corp. It even has plans to join with General Electric Co.'s NBC unit and Pearson PLC, publisher of the *Financial Times* newspaper and owner of Thames TV, to start another 24-hour news service, the Asian News & Business Channel (ANBC).

SWATTING BLOOMBERG. The key balancing act will be to achieve all this without taking the corporate eye off Reuters' traditional competitors. Michael Bloomberg—who has multimedia ambitions of his own—seems to give Job the most cause for concern. Although Bloomberg's estimated 30,000 terminals are a fraction of Reuters' count, he is increasing his market share among bond traders.

But Job insists he is not complacent. "We're chasing them down their holes," Job says of his competitors. Still, he concedes that his \$125 million deal to purchase Teknekron Software Systems in Palo Alto, Calif., came partly because he feared Bloomberg would snatch the hot software developer himself. Although Bloomberg says, "I never spoke to them about buying their company," he acknowledges he had been cooking up a software deal with Teknekron until Reuters stepped in. "We'd rather we had it than he had it," adds Executive Director David G. Ure.

Indeed, Job and his 15 dealmeisters would rather have a lot of things right now. From the latest quote on the German mark to the hot news on Asian TV, Reuters is furiously trying to wrap up the world in a tidy package and put it on a screen. "The thing that keeps this company growing is adrenaline," Job says. That may be true. But Reuters also has the cash to fulfill its wishes.

By Paula Dwyer in London, with William Glasgall in New York and Greg Burns in Chicago

de and monitor their personal investments. A \$20 million purchase of VAMP alth Ltd., a British on-line medical information system for family practitioners, could be Reuters' springboard into the huge health-care market in the U.S. Many of Job's deals enhance Reuters' sting financial-information line. For example, McGraw-Hill Inc., publisher of *BUSINESS WEEK*, is using Reuters' network to distribute information on municipal bond prices and corporate earnings. "Our information will wind up on one of thousands of desks we've never been able to reach before," says James Quandt, president of McGraw-Hill Fi-

NEW MARKETS

CABLE TV

Telemundo Group, TeleNoticias, a Spanish-language cable news service to serve Latin America, and the U.S. C television and PLC in a 24-hour satellite news and channel.

MULTIMEDIA

Launches Reuters Financial Television, piping live digital TV coverage of major events to European currency traders' terminals. Begins "video on demand" experiments with Bell Atlantic and Nynex.

U.S. EQUITIES

An also-ran in providing U.S. stock quotes, buying money-losing Quotron from Citicorp. Will beef up service with more international equity data in hopes of boosting 20% market share.

DATA: REUTERS HOLDINGS PLC, BUSINESS WEEK

BRITAIN

FINALLY, THE PAYOFF FROM THATCHER'S REVOLUTION

Britain's surprising resurgence holds some lessons for the Continent

Low inflation. Declining labor costs. A willing work force. A recovery that's gathering strength. Sounds a lot like the current U.S. economy, doesn't it? But it's Great Britain—whose ability to bounce back from devastating recession was widely doubted only a year ago. That doubt is fading fast.

Lots of heads turned on Jan. 31, when Germany's BMW announced it would pay \$1.2 billion for Rover Group Ltd. The Germans want the British carmaker because of its quality products and labor-cost edge—strengths Rover sorely lacked just a few years ago. The sum offered is just part of the billions in new foreign investment pouring in. Many of these foreigners are eager to benefit from flexible labor rules and pro-business government policies.

NEW ATTITUDE. The result is an economy that's the sole bright spot in Western Europe. While the number of jobless in Germany and France stays stubbornly high, British unemployment of 9.8% is down from 10.6% a year ago. Economists at Nomura Securities Europe, predict growth of 3.1% in 1994—the highest rate in the European Union.

Meanwhile, inflation is running around 2%, productivity is rising, and manufacturers' unit costs are falling at the sharpest rate in more than three decades. To maintain the momentum, the Bank of England on Feb. 8 cut bank rates a quarter-point.

It's a far cry from the days when Britain was considered a model of how to run a country into the ground. Credit goes largely to Margaret Thatcher, whose reforms are now bearing fruit. The Tory Prime Minister weakened the labor unions, creating conditions for modest wage increases and flexible work rules. "The new British worker has shak-

en the image of the militant 1970s," says John Elder, general manager of Newport Wafer-Fab Ltd., a Wales-based maker of silicon wafers that's jointly owned by Hong Kong's QPL International and France's SGS Thompson.

Britain's new labor market has proven a potent lure to outsiders. Japan's Nissan Motor Manufacturing (U.K.) Ltd., for example, has invested \$1.43 billion in the country since 1984 and now employs

34% of the brand-name computers sold in Europe. Compaq Computer Corp. Jan. 21 announced it would boost Scottish work force 31%. Domestic companies, too, are benefiting from Britain's resurgence. In a ranking of major European companies with the largest market capitalizations, 14 of the top 25 are British, from drugmaker Glaxo to Brit defense contractor General Electric.

The impact of these changes has been lost on the Continent, where just about every other country is trying to loosen labor rules and attract investment. "Britain favored foreign investment long before France did," says Jean-Dan Tordjman, France's Ambassador-at-Large for foreign investment. "Now we're doing those things too." Tordjman notes that France has followed Thatcher's decision to cut corporate tax rates a

boost labor flexibility.

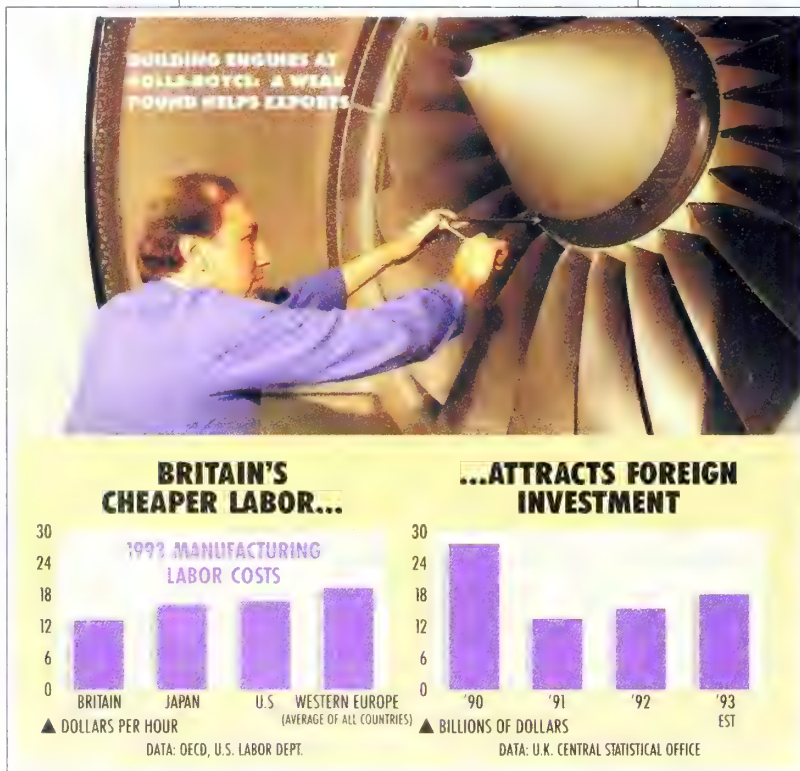
Problems remain. The pound's steep devaluation after Britain's exit from the European Exchange Rate Mechanism in 1992 helped lower British labor costs to \$12.90 an hour—a third less than the Western European average. A rising pound would diminish that advantage. Worse, many British workers are as well-trained or productive as their counterparts in Germany and Japan.

STAYING POWER. Serious issues, but British manufacturers are confronting them. Companies such as auto supplier Unipart are bucking long-term trends by investing heavily in on-the-job training. And other companies aren't con-

tent to rely solely on a devalued pound. Lucas Industries PLC's automotive division is one of the British companies that supplies Volkswagen. To win more business, Lucas is committing to modest price reductions, stepped-up service, and cooperation on new product design.

The pessimists are watching to see if Britain really will overcome its weaknesses. A few more quarters of rising foreign investment, low inflation, and more job growth could be enough to convince the skeptics that Europe has something to learn from Britain.

By Julia Flynn with Paula Dwyer
London and Stewart Toy in Paris



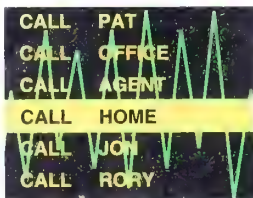
4,250 British. Other Japanese companies have joined Nissan, and their presence has given Britain another advantage besides labor flexibility. Take auto components. "The U.K. components industry has one enormous advantage," says John M. Neill, CEO of Unipart Group, which boasts Toyota and Honda among its biggest customers. "It's learned vastly more than other European suppliers from selling to the Japanese."

Auto makers aren't the only ones attracted to Britain now. Some 450 foreign high-tech companies now operate in Scotland's "Silicon Glen," producing 10% of the world's PCs and more than

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Commentary/by Robert Neff

WILL BODY BLOWS WEAR DOWN HOSOKAWA?

Japan has just witnessed one of its more bizarre sequences of political events in recent memory. First, Prime Minister Morihiro Hosokawa convened a dramatic 1 a.m. press conference to announce a \$135 billion stimulus package. Then, not 24 hours later, his Japan Socialist Party coalition partners shot it down. Finally, as a Feb. 11 summit with Bill Clinton in Washington loomed, Hosokawa worked out a "compromise" with the Socialists. To get their O.K. on the package, he agreed to drop the consumption-tax hike they objected to.

This process dealt Hosokawa a serious setback. Political infighting and intransigent bureaucrats are grinding this dashing reformer down. His ratings have dipped sharply, and his coalition is frayed. In fact, his government is so weak that he might never have succeeded in cutting a tax deal without the pressure of an impending U.S.-Japan summit. The Washington meeting has been Hosokawa's "salvation," says prominent Tokyo political commentator Minoru Morita. Of course, Hosokawa could still be severely damaged if the talks blow up or he comes home with a bad deal.

Such U.S.-induced, 11th-hour economic policymaking has become routine for Japan. Each of the four stimulus packages since August, 1992, has immediately preceded meetings between the two nations' leaders. Only the threat of American ire seems to focus Japanese politicians' minds.

OLD SAW. But these gestures came only after prolonged and wearying haggling with the powerful Finance Ministry. The bureaucrats there seem to care more about fiscal probity than kick-starting the economy with more spending or pleasing America. Deficit spending is anathema, especially as Japan's population ages rapidly and as savings

and tax revenues decline. Bureaucrats see themselves as the guardians of Japan's future financial—and therefore overall—stability. With his coalition rocky, Hosokawa will have a tough time standing up to them.

All this sets the ministry against the kind of fiscal stimulus Washington has been demanding to help bring down Japan's current account surplus—a record \$131.4 billion in 1993. Instead, Finance is bent on shifting its sources of revenue from income taxes to consumption taxes—supposedly to offset

ated the Socialists, who call consumption taxes regressive. Analysts reject notions that strongman Ozawa pulled Hosokawa's strings. "I don't think Ozawa forced him," says Yasunori Sone, professor of political science at Keio University. "Hosokawa simply decided that the Ozawa line was better."
POPULARITY LIMBO. On the other hand, Sone notes, the Prime Minister's earlier, unprecedented support ratings and recent heady successes with political reform and the Uruguay Round of the General Agreement on Tariffs & Trade

may have made Hosokawa overestimate his clout.

That hasn't gone down well with the public. When the avowedly open, democratic Hosokawa appeared to have gone back to the secretive dealmaking of his predecessors, his ratings plunged overnight. One poll, taken right after his package hit the rocks, showed Hosokawa's public approval plunging by 21.1% from a week earlier to 56.3%—still historically high for a Japanese Prime Minister.

Sone believes Hosokawa can rekindle his popularity. In



HOSOKAWA, AT TIMES, ONLY THREATS OF U.S. ARE FOCUS JAPANESE POLITICIANS' MINDS

the effects of Japan's aging population. If the bureaucrats get their way, domestic consumption will be held down—forcing more reliance on exports for growth. "The ministry hasn't given up hope for an export-led recovery," says Akio Mikuni, president of his own credit-rating company and one of Finance's most trenchant observers.

Finance isn't alone in this thinking. Ichiro Ozawa, shadow shogun of the Hosokawa coalition, has called for raising the consumption tax to 10%, up from the current 3%. Japan's mass media have largely bought this notion.

For reasons that remain unclear, the avowed populist Hosokawa opted for the formula of Ozawa and the Finance Ministry. In doing so, Hosokawa alien-

ated the Japanese really want to like this fresh new leader and seem eager to give him the benefit of the doubt. But the latest episode was Round One in what's bound to be a prolonged battle with financial bureaucrats. They're not out to get Hosokawa so much as to preserve what they see as Japan's financial integrity and to protect their regulatory prerogatives. They will continue to drag their feet on deregulation and economic stimulus—at a time when Japan can least afford it. Hosokawa's challenge is to finesse them. He'll need all the aristocratic charm he can muster, plus maybe a little help from his American friends.

Neff is BW's Tokyo bureau chief.

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FRANCE'S ANTIPOLITICIAN MAY BE EUROPE'S SHARPEST POL

What's Edouard Balladur's secret? Lots of European politicians wish they knew. France's bland Prime Minister is almost alone among Europe's leaders in maintaining strong popularity—despite 12% unemployment, a seeming weakness in the face of domestic strife. Last month, half a million citizens marched through Paris to protest a cut in aid for Catholic schools. Balladur backed down. Recently, Germans angry at cheap imports looted supermarkets and rioted. Balladur gave them \$50 million in aid. Although those episodes hurt his ratings a bit, the public still loves him: Polls show he would defeat any opponent in next year's election to succeed President François Mitterrand were held today. That's giving Balladur a huge lead over his Gaullist boss Jacques Chirac, Balladur's mentor. The Prime Minister was poised to be a stalking-horse, smoothing the way for a presidential run by Chirac. Now a run by Balladur seems likely. Two influential ministers have already announced they will support him. Balladur continues to keep aloof from presidential politicking.

IN PROFILE. This stance has helped Balladur's image as an antipolitician whose only goal is to get things done. It's a gambit that plays extremely well on a recession-weary Continent that's sick of corruption and bored with grand schemes of European union. And ironically, Balladur is proving the canniest politician of them all. He has managed a clever balancing act: practicing tight management that has cut deficits during recession while launching a stream of high-profile programs to cut unemployment. Take his latest measures. He's requiring companies to re-use some \$14 billion in profit-sharing funds to employees to buy a car or fix up their homes. In addition, the government will give an \$850 rebate to anyone who trades a 10-year-old car for a new one. These moves should save jobs by boost-

ing weak consumer spending—especially car buying, which fell 18% in 1993. He also aims to create 35,000 service jobs.

Many economists and even some fellow Gaullists call these moves window-dressing. Rather than create public-sector jobs, "he should cut subsidies and give the economy room to expand," says Ulrich Ramm, economist at Germany's Commerzbank. Some business leaders wish Balladur would let interest rates fall faster, instead of protecting the franc as he has since it was cut loose from the German mark last August. But with the franc back to its precrisis level, there's no sign Balladur will change his tack. For one thing, weakening the franc might hurt his campaign to privatize industry.

Yet defenders argue that Balladur's moves are just the low-cost, confidence-building measures that France needs. With the economy showing recovery signs, "he's doing neither too little nor too much," says Jean-Paul Bethéze, chief economist at Crédit Lyonnais. Existing fund pools will pay for many of the latest moves. Balladur is also beginning to rein in the ballooning social costs that his predecessors feared to tackle.

Balladur's sober management generally pleases business. His genteel manner has also kept him on amazingly cordial terms with Socialist Mitterrand. The French appreciate the contrast to the bickering that marked Mitterrand's "cohabitation" with Chirac from 1986 to 1988, when the latter was Prime Minister.

Balladur's toughness in the General Agreement on Tariffs & Trade talks made him a French hero—even though he merely postponed the farmers' pain. If France's economy recovers this year as expected, he can take credit for that, too. A year from now, France may reward this stealth politician with Mitterrand's chair in the Elysée Palace.

By Stewart Toy in Paris



BALLADUR: A PRESIDENTIAL BID IS LIKELY

GLOBAL WRAPUP

PRIVATIZATION, BOLIVIAN STYLE

Every adult Bolivian will soon become a shareholder in top companies under President Gonzalo Sánchez de Lozada's scheme for privatizing loss-agued state-owned enterprises. Bolivia could raise \$3 billion over the next few years from sales of up to 10% of six companies, including Bolivia's national oil company, phone monopoly, and international airline. The government will turn over management control of the companies to winning bidders. In a break with Latin American countries such as Argentina, which have used privatization proceeds to pay off debts and shore up

budgets, the inflows will be plowed back into the companies. That will boost the value of the 51% of company shares that will be handed out to Bolivia's 3 million adults. The proceeds will be deposited in individual mutual or pension-fund accounts. Earnings from the funds could double the incomes of many Bolivians.

WARSAW POWER STRUGGLE

Finance Minister Marek Borowski has resigned. But populist Prime Minister Waldemar Pawlak finds himself forced to stick with Borowski's conservative budget rather than yield to demands for higher social spending. This averts a crisis that could have

delayed International Monetary Fund aid and debt relief from the Paris Club of creditors. It also shows that fiscally tightfisted former Communists such as Borowski still have the upper hand over Pawlak's Polish Peasant Party in the ruling coalition.

FRENCH BANK BAILOUT

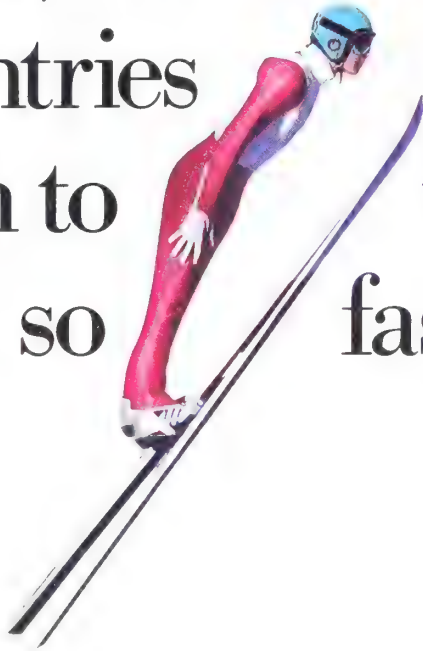
Crédit Lyonnais is the latest state-owned company seeking government aid: \$670 million to bolster its balance sheet and to spruce it up for privatization. But it may raise new cries in Brussels, where Eurocrats are probing French largess to computer maker Groupe Bull and may try to block planned aid for Air France.

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in 55 Olympic events
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A RESEARCH BEHEMOTH GETS EVEN BIGGER

Hughes Medical adds the equivalent of a university department

In an era of tightening budgets, the Howard Hughes Medical Institute, the largest private U.S. funder of biomedical research, is a distinct exception. Next year, the institute will spend at least \$30 million more, up 11%, to fund the hiring of 49 more scientists, mostly women and minorities.

The boost in staff, to 272, comes as biomedical advances have opened "enormous" opportunities for breakthroughs, says Purnell W. Choppin, Hughes's president. It also solidifies Hughes's role as the research leader in cell biology, genetics, immunology, neuroscience, and structural biology. Says David A. Pendlebury, research analyst at the Institute for Scientific Information, which tracks the work of research groups: "It's like a baseball team with a megarich owner hiring all the elite players."

REAL-WORLD RESULTS. Howard Hughes established the institute as a tax shelter in 1953. After his death in 1976, it took a Delaware court eight years to sort out the financial tangle and make the institute the owner of Hughes Aircraft Co., which it sold to General Motors Corp. for \$5.2 billion in 1985. To keep its tax-exempt status, the institute, based in Chevy Chase, Md., struck a deal with the Internal Revenue Service to spend 3.5% of its endowment on research each year. Smart investments have since increased Hughes's nest egg to \$7.8 billion. So the institute's spending on research will reach \$280 million this year, up from \$79 million a decade ago.

Hughes's distinctive approach helps it get a lot for its money. Unlike most foundations, it doesn't dispense grants. Instead, it hires top researchers—including four Nobel laureates and 41 National Academy of Sciences members—who go on working at their universities, medical schools, or research centers. Freed from the political and money pressures of their old employers, they can set their own agendas. By contrast,

critics charge, the National Institutes of Health dispense money through a process that pushes grant-seekers toward low-risk projects that are not likely to extend the frontiers of science. Because it is private, Hughes is also free of the political pressures that sometimes force the NIH to pump more money into specific research than can be usefully spent.

The bottom line is that Hughes investigators have been credited with dozens of major breakthroughs, among them patenting a transgenic mouse that carries a foreign gene, discovering the gene that causes cystic fibrosis, and isolating the gene responsible for Lou Gehrig's disease. In a 1993 survey by *Science Watch* newsletter of the work cited most in genetics and molecular-biology literature over a five-year period, 9 of the 25 most cited were Hughes Medical investigators.



BLOBEL: FREE TO DO SCIENCE

One reason

may be that these people can concentrate on their work. "I divide my life into before Howard Hughes and after," says Günter Blobel, a researcher at New York's Rockefeller University who received the prestigious Lasker Award last year for his work on how proteins move through cell membranes. Rather than struggle with grant applications, Blobel says, he does science. When he needed \$100,000 worth of electrophysiological equipment,

to test a theory of protein migration, Hughes put up the cash. In addition to salaries, it pays for laboratory overhead, research assistants, and technicians, which government grants often don't cover.

Hughes's wealth and influence also attract critics. The institute operates with no public oversight. And even some Hughes investigators complain that it generates

intense pressure to produce. It keeps researchers from getting too comfortable: the institute fires about 15% of them after reviews, which it conducts at intervals of three to seven years.

LYME AID. Because a Hughes appointment may not last forever, the institute encourages researchers to apply for other grants, causing some friction in research circles. One NIH committee, for example, receives 70 applications a quarter for just 7 grants. NIH officials say they don't discriminate against Hughes investigators—at least, not always. Even "if you have two applications of equal merit and one is receiving money from Hughes, the grant goes to the other," says one NIH grant-committee member.

Hughes is interested in more than just research: Commercialization is a part of the game plan. Any patents or commercial licenses are held by the institutions where Hughes investigators are based. Hughes then shares any royalties with researchers and their home institutions. So far, Hughes research has generated 134 patent applications: 65 have been granted. It has also led to 65 licensing agreements, including a deal with SmithKline Beecham PLC to produce a Lyme disease vaccine.

Commercial royalties are a pittance so far: \$482,000 in 1993. But Hughes investigators estimate they have made 469 discoveries with patent or commercial potential. With those in hand, Hughes could soon be rolling in more than breakthroughs.

By Mary Beth Regan in Chevy Chase, Md.



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SMF021047

Developments to Watch

EDITED BY RUTH COXETER

A SOFTWARE SOLUTION TO SMOKESTACK POLLUTION



Companies that try to cut emissions may see profits go up in smoke: Gear needed to comply with 1990 amendments to the Clean Air Act, which requires monitoring of nitrous-oxide emissions, runs up to \$200,000 per smoke stack.

Now, Keith Terhune, an Eastman Chemical Co. engineer, says a plant can comply with the law by using soft-

ware instead to monitor the conditions that produce emissions. Terhune "trained" a so-called neural-network program from Pavilion Technologies Inc. in Austin, Tex., to understand the gas boiler at Eastman's plant in Batesville, Ark. The neural net learned from experience and soon was deducing the level of emissions by watching boiler variables such as temperature, pressure, and fuel flow. Tests show that the program is accurate to within 3% of measurements taken at the stack. Authorities in Arkansas, Louisiana, and Texas have approved use of the software. If the Environmental Protection Agency ever approves its use, Eastman stands to save \$150,000 for each of the 50 stacks it is required to monitor.

EUROPE GETS TOGETHER IN THE LAB

After months of haggling, the European Union's members have reached a compromise that clears the way for Europe's biggest collaborative research and development project ever: the Fourth Framework Program. If it is approved in April, as expected, the five-year R&D effort will have a budget of almost \$13.5 billion, roughly twice what was invested in the Third Framework Program, which ran from 1990 to 1994. Originally, the European Commission wanted to spend nearly \$15 billion, but the three countries that will chip in the most—Germany, France, and Britain—held out for a smaller sum.

The draft plan calls for investing the biggest chunk of money—\$3.8 billion—in information and communication technologies. Other big-ticket areas include nonnuclear energy, at \$2.5 billion, and industrial technology, at \$2.1 billion. Proposals for R&D projects that would qualify for 50% subsidies under the Fourth Framework initiative will be solicited this fall.

IT'S LIKE A GEIGER COUNTER FOR TOXINS

Even Superman with his X-ray vision might be hard-pressed to identify all the chemicals buried at a waste dump or an abandoned plant. But a new machine developed by Westinghouse Electric Corp. sees through earth and concrete and gives engineers a readout of the chemicals lurking within.

The gamma-neutron-analysis machine shoots neutrons into whatever material it is inspecting. Those neutrons combine with atoms and emit high-energy gamma rays. By analyzing

those rays, the machine can detect, identify, and quantify contaminants buried in soil or structures without digging or demolishing, Westinghouse says. Currently, monitoring contamination means sending samples to a lab. But sampling can miss hot spots and exposes workers to dangerous materials. The company, which has applied for a patent, developed the machine for its own environmental-services division. It will first be used in dumps in the U.S. and nuclear plants in Eastern Europe. Later, this technology could be used for bomb and chemical-weapons detection and eventually, perhaps, for mineral prospecting.

BLOCKING NASTY RADIATION FROM OVERHEAD WIRES

Whether electromagnetic-field (EMF) radiation poses a health hazard remains a thorny question. EMF radiation is especially high near electric power lines, but it is produced even by televisions and hair dryers. Most research into links between EMF and illness has been inconclusive. But when studies in Sweden in 1992 turned up a new correlation between childhood leukemia and proximity to power lines, Harold J. Raveche, president of Stevens Institute of Technology in Hoboken, N.J., decided it was time for his researchers to get to work.

The result: an EMF shield that Raveche claims can block as much as 84% of the radiation from overhead power lines. It looks like a circus safety net hanging from the lines. The net is woven from thin strips of so-called amorphous metal coated with weatherproof plastic, that dissipate the magnetic field. Adjusting the shield's size and shape can provide protection for everything from a house to a whole neighborhood, says Dilhan M. Kalyon, a chemistry professor at Stevens who helped develop the shield. Fences made from the material can block EMF from transformers and industrial motors.

YOU MIGHT THINK A FERTILITY PILL FOR SHRIMP IS NO BIG DEAL

Most of the shrimp—\$2 billion worth—that is imported into the U.S. each year comes from farms in China, Ecuador, and Malaysia. But shrimp farming can be a rather tricky business. Captivity tends to wreak havoc on female shrimps' hormones, so that they don't produce enough fertile eggs to replenish the ponds. So the farmers must buy shrimp larvae or spawning adults caught by fishermen.

University of Connecticut endocrinologist Hans Laufer has figured out how to compensate for hormones run amok. The solution is a special shrimp food, a delectable pellet of squid bloodworms, and mussels enhanced by a chemical copy of shrimp growth hormone called methyl farnesoate, which stimulates the production of mature eggs. In tests, "maturation chow" doubled the number of females producing viable eggs. This might reduce imports, says Laufer. "We can't compete with low energy and work costs in Third World countries, but we can create high-tech facilities."



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HOT CLUBS AND HOT STOCKS

Big Bertha has Callaway sizzling. But are golf stocks overheated?

When Johnny Miller's last putt plopped into the cup on the 18th at Pebble Beach on Feb. 6, it was icing on the cake for Ely Callaway. Just nine days earlier, Callaway Golf Co.'s new line of Big Bertha irons had made a splash among the golf pros at the Professional Golfers Assn. merchandise trade show in Orlando. And here was Callaway pitchman Miller, 46, bag filled with Big Bertha drivers and irons, winning his first PGA tournament in seven years. For golfers who believe Callaway's oversize clubs can improve their score, the proof was right there on the TV.

FANFARE. Douglas Johnson, who manages the Seattle-based \$220 million SAFECO Equity Fund Inc., has been a Callaway convert for a while now. In Orlando, he got to swing the new irons on a course Callaway rented. Says Johnson: "I'm going to buy a set, and I haven't bought a set of clubs in four years. They're the best in the market."

He feels the same about Callaway's shares. Johnson added the stock to his fund's portfolio just after Callaway went public at 20 a share in February, 1992. It soon split 2 for 1. Today, buoyed by an eye-popping 114% jump in 1993 earnings, to \$41.2 million on a 93% increase in revenues to \$254.6 million, it's trading at 67% The PGA show unveiling, a hike in the 1994 earnings estimate for Call-



MILLER AT PEBBLE BEACH

away by Merrill Lynch & Co., and Miller's coup also helped the stock.

Despite price-earnings ratios higher than the clubhouse roof, true believers such as Johnson have fueled the popularity of golf-related new issues. Callaway tops the leader board in size and price. And the pack has grown. Taking advantage of Wall Street's appetite for initial public offerings, five other golf-equipment companies went public in 1993. Among them: Cobra Golf, which offered 3.7 million shares in September at 21; Royal Grip, which sells grips; Coastcast, which makes club heads for Callaway; Aldila, a maker of graphite shafts; and Renaissance

Golf Products, a licensee of Italy's Fila.

But the fanfare hasn't done much for thinly traded companies such as S2 Golf Inc., a clubmaker whose stock has hovered between 4 and 2 over the past year. Bad weather and a weak economy accounted for a drop in sales last year, to \$9 million from \$10.7 million in 1992, according to S2 President George Nichols. Still, Nichols sees promise this year in his niche market—women golfers, who account for about half its sales.

In addition, a more robust economy should help. Sales of golf equipment, which fell in 1991, have been recovering slowly, with 1993 estimates at \$1.4 billion, according to the PGA. "The golfing public has put off their purchase of iron sets for a lot of reasons," says Allan

Beyer, senior vice-president at market researcher Audits & Surveys. "People are realizing this is the time to buy a set—and I'm bullish on the [golf equipment] market this year."

New products such as Big Bertha irons should spur sales. Golfers have been eager to buy such oversize clubs, which have a larger "sweet spot," with the hope of cutting a few strokes off their game. At first dismissed as a fad by some, the big sticks are now the brightest spot in the equipment industry. And golfers have been willing to pay a premium for them: The new Big Bertha irons will sell for \$165, about one-third more than rival Cobra's clubs at \$120. Low-end graphite irons go for \$60 or so. Despite the cost, golf retailer Edwin Watts, who owns a 31-shop chain in the Southeast, says Callaway orders are brisk, even though the clubs won't be available until early May.

BOOMER BUYERS. Cobra Golf Inc. moved aggressively into the oversized market in 1992. The popularity of its King Cobra line of drivers and irons for men and the Lady Cobra line for women boosted 1993 revenues to \$56 million from \$35 million a year earlier, while earnings rose to \$7.7 million.

Wall Street analysts who follow golf stocks—especially Callaway and Cobra—are enthusiastic about their growth potential. The number of golfers remained steady last year at 24.8 million people who played at least one round of golf, according to the National Golf Foundation. But analyst Eric J. Appell at Torrey Pines Securities Inc. believes the demographic trends will work in favor of premium-priced golf clubs as more baby boomers reach the age and income brackets where they can afford them.

Still, analysts such as Mark Matheson at Los Angeles-based Crowell, Weed & Co. are queasy at the multiples commanded by golf stocks. "Brokers have very easy sell," he says of the stock. "It's something the client knows, and the demographics of stock investors are similar to golf players." In fact, golf stocks are a lot like oversize clubs. Their performance often matters less than the confidence they instill.

By Gail DeGeorge in Orlando

A LOT OF LOFT					
	CALLAWAY	COBRA	ROYAL GRIP	ALDILA	COASTCAST
	Big Bertha drivers, irons	Drivers, irons	Golf club grips	Golf club shafts	Golf club heads
IPO Price	10*	21	12	14	14
Stock Price	68%	34%	13	30%	31%
P-E Ratio (S&P 500: 23)	29	34	20	30	131

TOO MANY JOBS: IS THAT WHY THE FED TIGHTENED?

Behind its move may be the notion of "natural" unemployment

On Feb. 4, the Federal Reserve pushed up interest rates for the first time in five years. Fed speakers described the move as a pre-emptive strike to ward off inflation somewhere down the road. But the Fed's concern may be coming from a seemingly unlikely source: The fear that a long-moribund job market has already improved enough to allow workers to demand higher wages and reignite inflation.

True, the unemployment rate has gone down sharply in recent months, but the idea that unemployment has fallen too far seems absurd at a time when big companies are still cutting jobs by the bushel. Two econometric studies by Federal Reserve Bank economists say U.S. labor markets may be much tighter than people realize (chart).

SLACK. One study comes out of the Federal Reserve Bank of Kansas City. By looking at the historical relationship between inflation and unemployment, economist Stuart E. Weiner estimates the unemployment rate below which inflation starts to pick up—the so-called natural rate of unemployment.

According to Weiner's calculation, market inflation starts to be a problem in the economy when unemployment goes below 6.25%. By comparison, the unemployment rate in January was 6.3%, as calculated by the Bureau of Labor Statistics according to their old methodology. It means continued strength with could drive unemployment down what Weiner sees as its inflation flash point, pushing wages high and sending the economy back to a world of rising prices.

At another Federal Reserve Bank—this time Chicago—economist Kenneth Kuttner has come up with similar research results. Kuttner made new estimates of the potential output of the U.S. economy—that is, the maximum economy can produce without inflation rising. He found that in the fourth quarter of 1993, actual gross domestic

product was a mere 0.2% short of the level where inflation starts to become a real problem. The implication is that the labor market may be edging close to the point where it could touch off another bout of inflation.

Wage-push inflation is a matter of concern to economists outside the Fed as

the labor market. The unprecedented corporate downsizing, combined with intense foreign competition, could dampen wage pressures even if unemployment continues to fall. Indeed, even as the unemployment rate fell in January, winter winds were blowing in a new wave of job cutbacks at U.S. companies, including Westinghouse, Scott Paper, Aetna, and Nynex. In total, more than 70,000 new cuts were announced in the first six weeks of 1994. That's on top of ongoing reductions at General Motors, IBM, and many defense contractors. **"CUCKOOLAND."** Moreover, there are other signs of weakness in the labor market. Take the Help-Wanted Index, a measure of job ads in 51 newspapers around the country. This number, collected by the Conference Board, is up over the past few months, as companies have started hiring again. But the number of help-wanted ads for every unemployed worker is still more than 25% below 1980s levels.

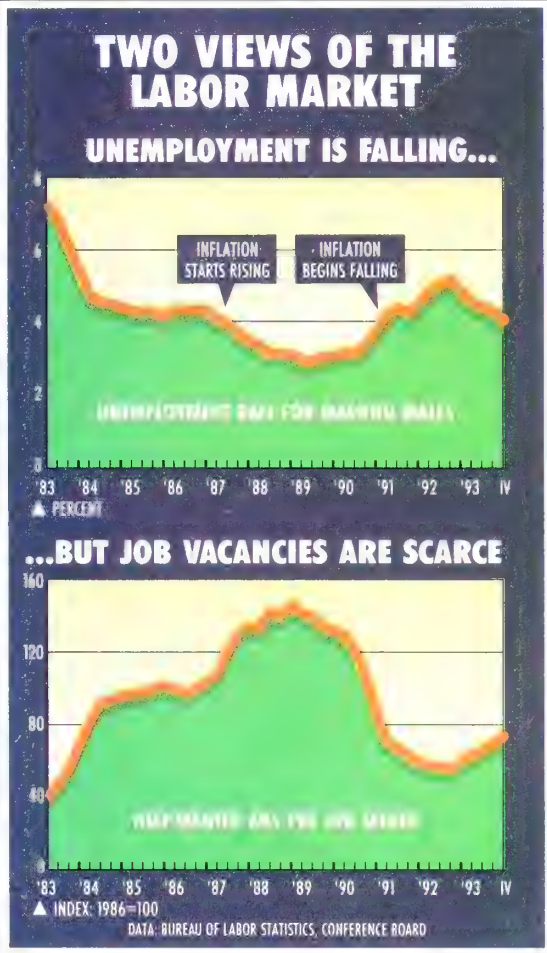
So far, in fact, there are few indications of any acceleration of wage inflation. For example, hourly compensation, adjusted for inflation, was unchanged in the fourth quarter of 1993. And over the past year, the inflation-adjusted employment-cost index has risen a measly 0.8%. "Anybody who sees wages ready to take off is in cuckooland," says Richard S. Belous, chief economist of the National Planning Assn.

If he's right, unemployment could fall still further without causing wage pressures. Belous thinks that the unemployment rate that carries an inflation danger is closer to 5.5% than to 6% in today's economy. In its own forecasts, the Congressional Budget Office uses a noninflationary natural rate of 5.5%, which would allow quite a bit more room for growth without inflation.

Moreover, the natural rate need not be taken as immutably fixed. Instead, "it depends on your human-resource policy," says Belous. For example, some unemployed workers are ill-suited for existing job vacancies, especially ones that demand high skills. Better training programs would increase the supply of workers for those jobs, relieving wage pressure in the labor market even while bringing down unemployment.

Yet for now, those who believe that the labor market is almost tight enough to trigger inflation seem to be winning the day. And that's turning the Fed into a "natural" inflation fighter.

By Michael J. Mandel in New York



well. "Most of the slack is gone from the labor market, and that's precisely why the Fed has tightened monetary policy," says Charles Lieberman, an economist and managing director at Chemical Securities.

Still, because the two Fed studies draw on historical data, they may be missing the dramatic recent changes in



TOP SPEED'S TEAM—WATTS, KILPIN, SAFFER, AND TAYLOR—FOUGHT TO SAVE A "REALLY NEAT TOY"

MATTEL'S WILD RACE TO MARKET

How it created its new Top Speed toy cars in just five months

Gary Saffer beats a narrow path through the clutter of busted model airplanes and toy hot-rod parts scattered on the floor. It's the kind of room any 10-year-old boy would die for. But Saffer's cubicle is at Mattel Inc.'s sprawling toy-design center in El Segundo, Calif. And Saffer is hardly a kid. He may wear faded jeans and sport a skull-and-crossbones earring, but Saffer, 49, is one of Mattel's top toy designers. And he has anything but fun and games on his mind when he picks up a shallow plastic box and marvels at the pile of small, banged-up toy cars inside.

Just more junk? Not to Mattel. The miniature cars, prototypes for the new Top Speed line, represent the company's latest push to lessen its dependency on Barbie, which accounts for 35% of its \$2.7 billion in sales. As part of its diversification, Mattel acquired Fisher-Price Inc. last year. Still, the company's greatest hope is to develop a toy for boys that would match Barbie's popularity. The task hasn't been easy. Al-

though the company spends \$60 million a year on toy development, its boys' division has been frustrated by a long string of failures dating back to the mid-1980s.

Will Top Speed finally achieve what Masters of the Universe and Demolition Man action figures failed to do? It's too early to know if kids will go for the tiny cars, which are propelled by a rubber-band and zoom along tracks and through clear plastic tubes at tremendous speeds. Top Speed, whose existence has been a closely guarded secret until now, will be unveiled Feb. 14 at the New York Toy Fair, a make-or-break event for toymakers that typically draws 20,000 buyers. Still, the fact that Saffer and an unlikely crew of artists, former auto-industry designers, and computer jocks perfected the toy in just five frenetic months underscores the urgency of Mattel's quest for a hit. And the project also provides a rare behind-the-scenes glimpse at product development, an increasingly complex and secretive process in today's intensely competitive toy industry.

The Top Speed project began just after Labor Day, when Saffer was told to get his "ultralight" ready for the Toy Fair. For months, Saffer had been dabbled with the design of a new, swifter car to add to Mattel's Hot Wheels line. The Hot Wheels cars, which measure no more than 2½ inches from front to back, have been a strong money-maker since they were first introduced in 1968 for kids ranging in age from 4 to 10. At first, Saffer balked at the deadline. Most toys take months to perfect. But with the Toy Fair approaching, the company had nothing but that exciting in the pipeline.

From the start, Saffer's biggest challenge was coming up with a smart-looking design. For rough prototypes hauled down the track to be sure. But to achieve speed, he made them of plastic—heresy to some traditionalists at Mattel. Hot Wheels had always been made of die-cast metal, which gives the cars an aura of substance and quality. To uphold that image in plastic, Saffer needed a classy look. **RADICAL DESIGN.** The job of creating that look fell to Dave Voss, a 26-year-old intern and recent graduate of the Fashion Institute of Technology's toy design program. "I wanted someone who was real divorced from the style we had done in the past," explains Saffer. And in the end, Voss came up with futuristic designs that represented a radical departure from typical Hot Wheels, which are most-

CO-MOLDED WHEELS

By molding together two separate plastic parts, designers simulated wide racing tires and stylish "mag" wheels found on real cars.

modeled after existing real cars.

Not everyone was happy with the design. Ed Watts, 39, a Hot Wheels veteran and former lead designer on Honda Motor Co.'s popular CRX hatchback, felt Voss's vision would be difficult to mass-produce. In particular, the exaggerated fins and tail pipes would be impossible to recreate in a mold. After heated debate, the fins and tail pipes were toned down.

Meanwhile, Saffer had to tackle some key technical problems. The biggest was

Speed's inability to handle sharp
ves and loops at high speeds. As it
hed out, Saffer, an antique-car hobby-
stumbled across a solution when he
s tinkering with his '36 Ford coupe.
Ford had a primitive suspension
tem that got Saffer thinking about
ots. He ended up splitting his toy
apart, using a plastic joint to con-
t the front and back like two cars of
ain. It was a pioneering innovation,
toy-car equivalent to independent
ension. As the car races around the
k, the joint allows the front portion
swivel slightly, allowing at least one
he front wheels to stay on the sur-
e, improving stability.

PREMIER COURT. With most of the en-
gineering and design problems solved,
design team began a series of meet-
s with Mattel's marketing experts in
-October. The new toy may indeed
around the track without a hitch.
Tim Kilpin, a 33-year-old marketing
cutive assigned to the Top Speed pro-
, wanted to make sure that it had
ugh zip to attract fickle young consum-
ers. That's when both sides decided to
translucent plastic for the body to
to its visual appeal. And to boost its
f allure in crowded toy stores, they
eed to package two cars together in a
all piece of plastic tubing that could
connected to the racing set.

Next, Watts and his
m of three auto de-
signers went to work in
early November
translating

Voss's visu-
al ideas

Mattel has been a laggard in the lucrative market for boys' toys and is pinning its hopes on Top Speed

into digital form. Once the design was
entered on the computer, they fine-tuned
it, using the same powerful Silicon
Graphics Inc. workstations employed by
the Big Three auto makers. Watts
slimmed the car down, making it look
racier. And to improve the car's real-
ism—a priority with most kids—Watts
used the computer to craft detailed en-
gine parts.

It all looked great on the screen. But
would the pieces hang together in real
life? The answer came in a matter of
days. Using a process known as stereo
lithography, in which a computer-guided
laser carves out precision parts from a
special plastic, engineers assembled a
series of models. Following several test
runs, they worked out bugs in the
wheels and front axles.

By mid-November, the project ap-
peared to be on schedule. That is, until
Mattel's manufacturing engineers said
that the planned translucent wheels
would call for a drastic retooling
at the company's Malay-
sian plant. In response, de-
signers came up with
"co-molded" two-tone wheels
that look like
the wide rac-
ing tires and
"mag" wheels

found on real racing cars. Again, the
manufacturers complained about retool-
ing. This time, the designers, convinced
that the wheels had to be as striking as
the rest of the car, wouldn't budge.
"When you give up too much," says
Watts, "the really neat toy you started
with just goes away at some point."

Before long, Top Speed was ready for
senior-management review. It's like "our
Supreme Court," says Mark Taylor, vice-
president for product design. The big day
came on Nov. 23. Mattel President Jill
E. Barad and other top executives grilled
the group on everything from pricing to
advertising. Then Barad questioned the
car's futuristic look. Almost from the
project's inception, she had had misgiv-
ings about a radical redesign of the Hot
Wheels car. After all, the traditional Hot
Wheels line has sold well. For a few tense
moments, the Top Speed team fumbled.
Then Kilpin, the marketing executive,
piped up. He argued that the fantasy-car
look made Top Speed unique, allowing
Mattel to command a higher price. In-
deed, Top Speed could retail for \$5 a
pair, including tube and launcher, com-
pared with \$2 for other Hot Wheels. "He
pitched it, she bought it," recalls Taylor.

"SIZZLE" SHOTS. The team's next hurdle
came just before Christmas: a practical
demonstration of Top Speed's capabilities
for their bosses. The computer-engineered
prototypes performed flawlessly, twist-
ing, turning, looping, and leaping. Even
better, the action was very "televisable."
Mattel has already shot a 30-second "siz-
zle" film to demonstrate the car's acrobat-
ics at the Toy Fair.

The final lap will be
raced on the sixth floor
of an old New York of-
fice building that the
company uses each year
as its Toy Fair head-
quarters. As banks of
overhead TV monitors

play the sizzle film over and over, ac-
tors portraying a race-car driver and a
scientist will demonstrate Top Speed to
prospective buyers on an elaborate 15-
foot-long track. That may be enough
to get Toy Fair's middle-aged audi-
ence to give the cars a whirl.
But the real test is whether
Top Speed will rev up 7-
year-old boys.

By Eric Schine in El Se-
gundo, Calif.

DETAILED ENGINE

Using latest auto-industry
computer software, de-
signers were able to craft
intricate engine to appeal
to young consumers.

TRANSLUCENT PLASTIC BODY

Unusual design feature shows off
interior detail. Use of plastic,
instead of metal found on tradi-
tional Hot Wheels toy cars, cut the
weight and improved speed.

FLOATING FRONT AXLE

Innovative suspension that
allows at least one of the
front wheels to stay in
contact with the surface as
the car loops around track.

FRONT LAUNCHING HOOK

By moving hook forward
from the rear of the car,
designers guaranteed a
smoother launch for the
ultralight car.

DATA. BUSINESS WEEK

THE SOUL
OF A SMALL
MACHINE

HOW TO HANDLE A CEO

Zenith's board is giving Jerry Pearlman a hand—a firm one

Every two weeks, Zenith Electronics Corp. Chief Executive Jerry K. Pearlman sits down to talk with the company's directors—either at a full board meeting or a conference with the executive committee. The meetings go on for hours—usually 2½, sometimes as many as four. Pearlman isn't plotting a megamerge, a restructuring, or any other extraordinary venture. He's just discussing ordinary business. But at perennial money-loser Zenith, directors have stripped Pearlman of the free rein that once was a corner-office prerogative. "We've been working in the trenches," says outside director Peter S. Willmott.

Shareholders of poorly performing companies have been pushing directors to get more active for years—ever since the 1980s merger wave petered out, killing the discipline that the threat of takeover exerted on CEO performance. Trouble is, most directors have no idea how to go about it. Many get their posts by knowing the CEO and are loath to challenge him. The CEO, also usually chairman, controls meeting agendas, the data directors get, and the time they have to ask questions and size him up. Now Zenith's directors, who since '92 have put Pearlman through a detailed accountability program, are providing one answer to the key corporate governance issue of the 1990s: how to monitor a CEO.

"LOST FOCUS." Zenith needed the scrutiny. "Jerry had lost focus," one director concedes. The Glenview (Ill.) company has wallowed in red ink since 1989, always promising that salvation lay just ahead in advances such as high-definition TV. Meantime, it weathered two proxy fights. Finally, after watching boards at IBM, GM, American Express, Westinghouse, Digital Equipment, and elsewhere

fire the top guys, directors chose to act.

Led by T. Kimball Brooker, directors created an oversight system (table), including a program that tracks 20 performance measures. In 1993, they stepped up the attention. The full board met monthly last year, vs. five times in 1992, and the executive committee met 11 additional times. "This board is not taking an off-with-their-head approach," says Sidley & Austin attorney Thomas A. Cole, the board's adviser. "It is work-

which challenged Pearlman in a 19 proxy fight, predicts fireworks ahead and likens the Zenith CEO and board to couple in marriage counseling: "The purpose is not reconciliation, but it's a prerequisite to divorce." Yet Zenith's mood is worth a look not only for its merits but also because the company's willingness to talk may prevent others from having to reinvent the wheel.

Brooker, a former Morgan Stanley & Co. partner who joined Zenith's board in 1989, says outside directors start meeting privately in '92 and decided to reestablish the board's old finance committee. That became the executive committee of Brooker, Willmott, CEO of Willmott Services, and Rand McNally CEO Andrew McNally IV. All three live in the Chicago area, near Zenith. Pearlman was asked to leave the executive panel. **CLOSE WATCH.** With management, directors chose 20 important figures to track so that, Brooker says, "if we get a

THE ZENITH BOARD ROLLS UP ITS SLEEVES

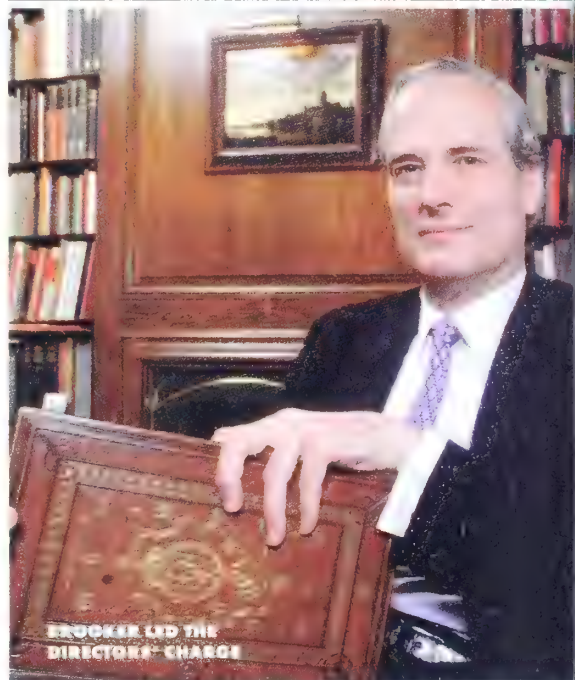
EXECUTIVE COMMITTEE Three outside directors meet with CEO Jerry Pearlman and top managers every month, between regular board meetings

TRACKING SYSTEM To monitor management, the executive panel watches data on 20 variables, including production, sales, pretax profits, market share, liquidity, and productivity

REMEDIAL MEASURES Deviation from the corporate plan in any of the 20 variables gets fast attention—a corrective measure or a plan change to accommodate new information

COMPENSATION Top management bonuses are now linked exclusively to Zenith's financial performance

DATA: BUSINESS WEEK



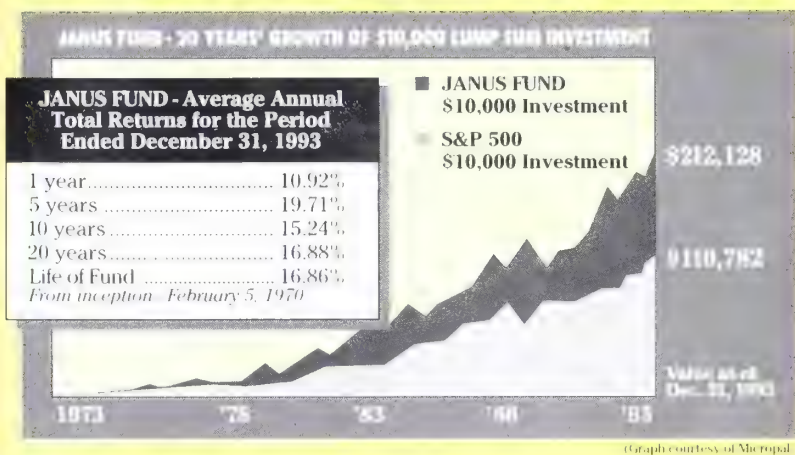
ing with management, a roll-up-your-sleeves approach." Pearlman claims he welcomes the board's help.

Zenith's directors haven't pleased every governance expert. "It's a good model in that they're doing something," says John Pound, a professor at Harvard University's John F. Kennedy School of Government, "but this guy ought to be sacked." Attorney Ira M. Millstein of Weil, Gotshal & Manges chides directors for being late: "It's another example of why boards ought to be taking more interest when a company is doing well as much as when it is not doing well." And Lilli A. Gordon, an adviser to Nycor Inc.,

plan, we'll be able to address it quickly. They include production and market share by product line, sales in dollars and by unit, pretax profits, employment, such liquidity measures as cash balance and bank borrowings vs. available credit, and productivity relative to past performance. Says Brooker: "They are measures anticipatory to any problem of overproduction or underselling."

Then, in August, 1993, the board elected Albin F. Moschner to president. "We took operations off Pearlman's back," says Brooker, allowing him to focus on strategy. Directors also changed Zenith's pay system, tying bonuses to

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sively to its financial performance. That means everyone is watching rests. Executive committee meetings, which often start at 7 a.m., begin with a review of the tracked numbers, as do board meetings. Unless there's a problem, the discussion quickly moves to other issues. The executive panel—with Pearlman, Moschner, Chief Financial Officer Kell Benson, and sometimes marketing chief Gerald McCarthy in attendance—has taken up pricing, real estate issues, and joint ventures, among other things. Pearlman says the group aided his decision to join in the "grand alliance" of companies developing HDTV. Typically, Brooker, Willmott, and McCarthy later meet alone, "judging the performance of the CEO and all management," Brooker notes.

Brooker also has worked with Pearlman in many one-on-one discussions. It's possible largely because his day, as president of family company Barbra Oil Co., takes just two days a week—leaving time both for Zenith and his pursuit of a doctorate in art history.

TOO FAR? If Zenith were profitable, he wouldn't have to be so attentive. Two dozen meetings a year between CEO and directors is too many, certainly for healthy companies. Indeed, drawing the line between board and management activities is a big debate in governance circles—and some experts think Zenith's board is too involved. Pearlman seems eager for breathing room. "I don't think the structure will change, but we're already discussing meeting less frequently," he says. "We may evolve to half as many meetings—having the board meet every other month and the executive committee meeting in between."

Zenith does seem to be better off, though. Pearlman hasn't committed to a turnaround time frame at the \$1.2 billion company, but its stock has turned up, to 52 vs. a 52-week low of 6%. Some cred goes to the board. "This is exactly at a board should do," says Nell Mi-v of Lens Inc., an activist investment fund. "In 99% of cases, the CEO is a capable person. If he's not doing a good job, it's because the board is not doing a good job of outlining his goals and holding him to them." Gordon agrees: "If the system had been in place five years ago, you'd have gotten better performance or you'd have gotten a new CEO." Pearlman must see the same picture.

By Judith H. Dobrzynski in New York

SEGA!

IT'S BLASTING BEYOND GAMES AND RACING TO BUILD A HIGH-TECH ENTERTAINMENT EMPIRE

It's a typical grind-it-out afternoon in Haneda, a drab industrial district on the southwest rim of Tokyo Bay. Gray, methodical, efficient. But step inside a nondescript eight-story building on the main road, and you're plunged into a frenzied milieu of colors and sounds: the headquarters of video-game powerhouse Sega Enterprises Ltd. Visitors from France gawk at a big-screen display of animated martial-arts experts facing off before a blazing sunset. Four stories up, young game creators in T-shirts peck away at Silicon Graphics Inc. workstations, putting semihuman figures through movements that defy gravity and logic.

Sega has built a \$4 billion company on escapism. But suddenly, it needs to engineer an escape of its own. After three years in which it increased revenues fivefold and profits sixfold and wrestled gobs of market share from Nintendo Co., this spinner of video fantasy is tasting reality. Thanks mainly to a bloody price war with Nintendo in Europe, Sega's profits may plunge 63% in the current fiscal year ending Mar. 31, according to new estimates by Goldman, Sachs & Co. For the coming year, excessive inventories should permit a 52% rebound at best. The current generation of video games is losing steam, it seems: Many customers are waiting for new machines due late this year or in 1995.

PRICKLY CRITTER. Faced with similar challenges, Nintendo is responding as companies usually do: holding down expenses, cutting prices, and sticking to its strength—cartridge-based games (page 71). Not Sega. With the *joie de vivre* of Sonic the Hedgehog, its electric-blue mascot, it is pursuing a two-pronged campaign to reignite earnings. To broaden the market for video games, it is fin-

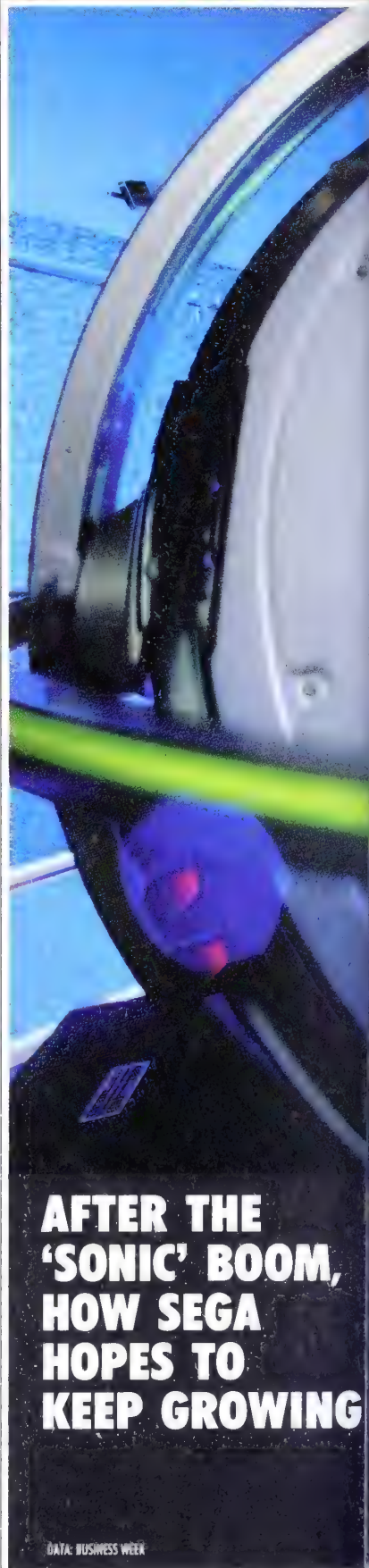
ishing up a compact-disk machine, code-named Saturn, that will play more realistic games than the ones on current CDs or cartridges. Saturn may reach market in limited quantities by Christmas—up to a year ahead of Nintendo's next box.

Beyond that, Sega has embarked on a grand plan to use the profits and know-how garnered from video games to help it build an entertainment empire. It wants to challenge Walt Disney Co. with virtual-reality theme parks, take on Hasbro Inc. with electronic toys, and lure viewers from TV networks by jumping onto the Information Superhighway with a new category of interactive entertainment.

In short, to paraphrase its advertising slogan, Sega is aiming for the next level. To get there, it will rely on its twin strengths: computer prowess and a deep bond with the most wired generation in history—your children. Sega knows what kids find cool, from its new game *ToeJam & Earl in Panic on Funkatron*, to *Mortal Kombat*, the bloody bestseller from Acclaim Entertainment Inc. that Sega, unlike Nintendo, left uncensored. Now, its wider ambitions mean going after parents.

Despite its profit slump, Sega has a better shot than many other multinationals that are also groping their way through "convergence"—the collisions involving the worlds of computers, communications, and entertainment. Sega—even more than Nintendo—successfully straddles different worlds. In contrast to, say, TV, where one company produces the sets and another the programs, Sega works both sides. It can jigger hardware and software to work together at peak performance.

In Sega's favor, too, is its trans-Pacif-



AFTER THE 'SONIC' BOOM, HOW SEGA HOPES TO KEEP GROWING

DATA: BUSINESS WEEK



**REAL THRILL
AT PLAY IN SEGA
VIRTUALAND, AN
EXPERIMENT AT
LAS VEGAS'
LUXOR HOTEL**

DIVERSIFY

Sega is going into new businesses: Toys and amusement parks. Its new line will include books that come with a TV through an interactive pen. Its computer games—planned 50 titles—will have rides that use windowless capsules to help players create the look of intergalactic war in the Wild West.

FORM ALLIANCES

In contrast to Nintendo, Sega is a master collaborator. Among its partners are AT&T in communications, Hitachi in chips, Yamaha in sound, JVC in game machines, and perhaps Microsoft in future software developments. Those ties should help Sega embed its core graphics technology into a wide variety of products.

RIDE THE INFO SUPERHIGHWAY

Sega executives believe that the biggest use of the Information Superhighway will be entertainment. A special AT&T modem already lets Sega Genesis owners play games over phone lines while talking. With Time Warner and Tele-Communications, the company plans a cable Sega Channel to transmit game software.

KEEP TODAY'S PLAYERS HAPPY

This is the live-or-die issue. Players bore easily, so Sega needs a steady stream of attractive new games to keep its cash-cow business from running dry. It's counting on its Saturn game machine to rekindle enthusiasm—but volume sales are still a year off. Meanwhile, it's spending \$200 million a year on R&D.

ic style—call it NEC meets MTV. Sega combines Japanese patience with American entrepreneurship. In U.S. fashion, it's doing deals with collaborators as varied as American Telephone & Telegraph, Time Warner, Tele-Communications, Hitachi, and possibly even Microsoft. That's in sharp contrast to Nintendo, where President Hiroshi Yamauchi rules with an iron hand. The hand is about to squeeze harder—especially in the U.S. market, where Goldman Sachs estimates that Nintendo's sales of 16-bit game machines slipped from a 60% share to 37% by the end of 1993—with Sega picking up the slack. Nintendo still claims a slim full-year lead in shipments to the U.S. (chart), but its products are piling up in inventory. "Sega is chewing Nintendo alive," says one software executive who develops games for both companies.

For its next meal, Sega will try to take a bite out of Disney. It will try to exploit the efficiency of electronics over iron and steel to create a new entertainment form: virtual-reality (VR) theme parks. Instead of building roller coasters and ersatz Bavarian castles, it will place visitors inside windowless, truck-size capsules and make them feel as though they're driving a race car or piloting a spaceship. Sega VirtualLand, an experimental arcade at the new Luxor Las Vegas hotel, gives a sense of what's to come.

Stationary VR "rides" will dazzle customers cheaply—with the help of advanced computer graphics from Martin Marietta Corp. Parks packed with them will occupy perhaps 3% of the land area of Florida's Disney World, so they can be put in densely populated areas. They'll be cheaper to build, typically \$20 million to \$40 million apiece. And they'll be renovated with just a change of software. The first two are set to open this year in Osaka and Yokohama, and Sega hopes to have 50 by 1997. Goldman Sachs analyst Naoko Ito predicts that they will have gross profit margins above 30%, compared with less than 25% for Disneyland and Disney World.

RIDING HIGH. From VR entertainment, it's not such a long step to the business world. Sega executives envision a virtual-reality system for architects that lets you walk through a building before it is built or a training system for handling

dangerous machinery. With expertise honed in the consumer market, Sega could bring down the cost of industrial systems that today may run hundreds of thousands of dollars.

To be sure, the hurdles that Sega must overcome to carry off its diversification plan might slow even the persistent Sonic. Sega has grown so rapidly that it looks overweight next to Nintendo. It has little experience in running amusement parks or working with live movie stars—filmed for parts in interactive games—who need more pampering than your average cartoon. As for VR, the foundation of Sega's theme parks, CEO Hayao Nakayama concedes that more research is needed on the long-term health effects of such systems.

The biggest worry, at least short term, is the cash-cow business that will fund these ventures.

Thanks to the European price war—a Sega Genesis machine in Britain costs half what it did a year ago—Sega could lose \$100 million in Europe in the year ending Mar. 31. New competitors are butt-

ing in, from Sony to a reborn Atari to an impudent U.S. startup, 3DO. Video-game aficionados are fickle: Sega could be deemed uncool as rapidly as it became cool. And some Sega attempts to find an older audience have backfired: Under pressure from Congress and children's advocates last month, it yanked Digital Pictures Inc.'s Night Trap game, which featured zombies attacking nightie-clad women.

Sega executives remain undaunted—perhaps because such ups and downs are mild

by the standards of their company's multuous past. Nintendo's roots go back to Yamauchi's great-grandfather in 1888. But Sega was started in 1954—by an American, David Rosen, then a 20-year-old from Brooklyn who returned to Tokyo after a stint there with the U.S. Marine Force. Today, Rosen is co-chairman of Sega of America Inc. and an adviser to CEO Nakayama. The impeccably successful executive has an office in Los Angeles Century City and six homes from Hawaii to Palm Springs to Beverly Hills.

KEY LESSON. In his early days in Tokyo, Rosen learned a lesson that still guides Sega: Better technology wins market. The first business of one-man Rosen Enterprises was importing and exporting art and other items. But soon he branched out upon the idea of two-minute photographic booths. He charged half as much as competing darkroom services that took hours or days.

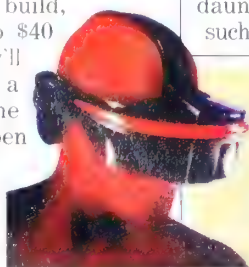
The modern Sega began to take shape in 1956, when Rosen started importing mechanical coin-operated games, which were already popular on U.S. military bases in Japan. For a dime, players could hit baseballs or shoot moving targets with rifles. But the restless Rosen wasn't satisfied with the games then available from the leading manufacturer in Chicago. He decided to make his own and in 1965 acquired a factory through the purchase of a Tokyo jukebox and slot-machine maker. The company stamped Sega on its games—short for Service Games—and Rosen adopted the moniker. The next year, Sega produced

Periscope, which let players torpedo ships by aiming through a periscope.

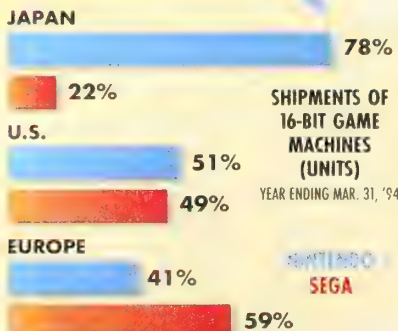
The game became a worldwide hit. "We got letters saying Sega had saved the toy industry," Rosen recalls. He became a millionaire in 1971 when he sold out to Gulf & Western Industries.



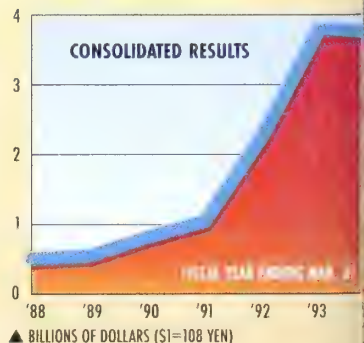
LEARNING TOY SEGA'S \$160 PICO CONNECTS TO A TV SET



SEGA IS GRABBING MARKET SHARE...



...AND ITS SALES HAVE SOARED...



...staying on as CEO. By the early 1980s, Sega was riding high with the industry. Revenues hit \$214 million in the year ended March 30, 1982. Then came a crash, brought on by a surfeit of mediocre games. Arcades were first, followed by the U.S. home market. Sega of America, which had spun off 20% of Sega, bought back the public shares and sold its U.S. assets to Bally Manufacturing Corp. In Japan, however, Sega survived. One reason was that back in 1979, Rosen had acquired a distribution company founded by a brilliant young Japanese entrepreneur, Nakayama. Rosen joined Nakayama and other Japanese investors to buy Japanese assets for \$38 million. Nakayama became chief executive, and Rosen headed the U.S. subsidiary. Sega went public in Japan in 1986. The near-death experience profoundly influenced Rosen and Nakayama: It taught them not to stick with one thing too long. Each generation of technology is a life and a death, concludes Rosen: "From those ashes, we have always a stronger industry emerge."

THE TAMER? The company's next incarnation, Sega executives say, will be as a player on the Information Superhighway. They argue that entertainment—shopping or education—will be the primary use for interactive communications at home. "I see us as a new form of entertainment company," says Thomas Kalinske, chief executive of Sega's U.S. subsidiary, Sega of America in Woodland Hills, Calif. "I don't think we



BROOKLYN BOY DAVID ROSEN, A SERVICEMAN WHO RETURNED TO JAPAN, STARTED SEGA IN 1954 AS A 20-YEAR-OLD

should be happy until there are more people using our products than sitting down to watch *Melrose Place* or *Beverly Hills 90210*."

Kalinske was hired in 1990 precisely to achieve that vision. He was a marketer, not a techie, a former CEO of toymaker Matchbook International Inc. and before that, a 15-year veteran of Mattel Inc. Like his predecessor, Michael V. Katz, Kalinske aimed Sega at a slightly older market and slammed Nintendo with in-your-face advertising. A young San Francisco ad agency, Goodby, Berlin & Silverstein, established Sega as the

coolest machine with its fast-paced, quirky TV spots. Goodby created instantly recognizable trademarks, such as the code-like layout of Sega's slogan:

WELCO
METOT
HENEX
TLEVEL.

Goodby also created the "Sega scream," in which wild-eyed, fast-motion characters from *Tyrannosaurus rex* to Joe Montana finish the ad by yelling into the camera, "Sega!"

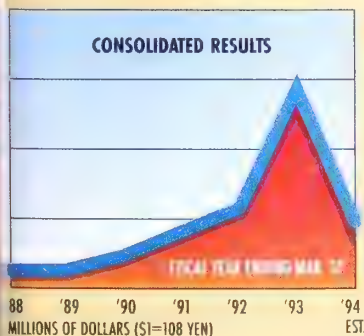
Kalinske is heeding Rosen's early insight to seize opportunities wherever they appear. One Info Highway venture mates Sega of America with cable operators Time Warner and Tele-Communications to download video

games into game machines over a pay-cable channel. Most games on the Sega Channel, starting late this summer, will be older titles whose sales are slipping. But some will be a peek at the latest releases. Goldman Sachs thinks the channel will make money in its first year—and earn \$33 million its third.

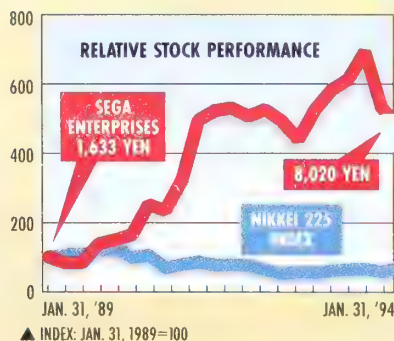
DIAL AND DUEL. Another venture, with American Telephone & Telegraph Co., lets customers using a special modem called the Edge 16 play video games over phone lines. Eventually, Sega hopes to use its expertise in the interface between person and machine for interactive TV, where viewers could choose their camera angle or news coverage. Sega is even talking with software giant Microsoft Corp., whose smarts might be useful as Sega machines begin to draw on multiple streams of data for source material: from cartridges, CDs, or cable systems. Nakayama, however, isn't talking, and Microsoft Chairman William H. Gates III says not to put too much stock in the discussions.

Sega's contribution to these deals is its ability to create interactive software—games, that is—that consumers can use without a manual. That's the province of people such as Sega of America's technical wizard, Senior Vice-President Joseph B. Miller III. As a research scientist at Battelle Memorial Institute for five years in the 1970s, he helped NASA figure out how to keep space shuttle

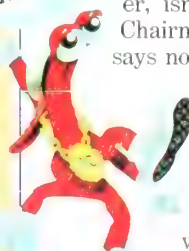
...BUT LOWER PROFITS...



...HAVE INVESTORS LEERY



JAMMIN'!



tiles from falling off. Now, multimedia has his attention. Says Miller: "We're in position to help design the look and feel of the [super] highway."

Doing that will be quite a leap for a company that was a flyspeck compared with Nintendo just six years ago. In the 1980s, Nintendo singlehandedly revived an industry that had collapsed under mismanagement and a mountain of bad games. It built a better machine than those of the Atari generation. It sold hardware at cost and made its profits from software. It also extracted heavy license fees—some 30% of revenues—from software makers to manufacture game cartridges for them.

Sega couldn't loosen Nintendo's grip until 1989—when it brought out a superior machine, the Genesis. It boasted 16 bits of processing power to Nintendo's 8 bits, allowing for faster, more lifelike action. Nintendo eventually matched Sega with its Super Nintendo Entertainment System, but Sega was in the game to stay. Sega also benefited from Nintendo's high fees, which alienated retailers and software developers. Sega's license fees were lower.

Nintendo, meanwhile, kept enthusiasm high for its games by limiting supply. But sometimes, says Stephen Sandberg, a co-owner of Sanco Toy Inc., which distributes toys to retailers throughout the Northeast, that went too far. "When you try to control a product, there's a thin line," says Sandberg. "You can absolutely kill a product by not shipping enough of it" if retailers lose sales. Nintendo's tactic made the retailers "more apt to look to someone else."

LONE SCOUT. By early 1992, Sega was firmly established as cool—which in financial terms means hot. But Nakayama, its elfin, fast-talking CEO, knew the good times wouldn't last forever. So some 18 months ago, he gave his top aides the word: "Newcomers will charge in. There will be excessive competition. Creativity will run into a wall. Games will become boring. What are you going to do?"

Nakayama then gave his answer: Make something that's hard to imitate, and make it on a large scale. That led to the idea of virtual-reality theme parks, more complicated than arcades and harder to perfect. It also led to Sega's Information Superhighway ventures and its first toy line—not large-scale, perhaps, but unique for now. The toys, being introduced this month, include a \$160 learning

game called Pico. Using an electronic pen connected to a TV, kids can touch a picture in a cardboard book and make the same thing appear on the screen. For teens, Sega will offer a \$300 electronic planner that includes an infrared transmitter and receiver for passing messages. All the products will be out by Christmas.

ATARI RETURNS. Still, all these ideas depend on the cash-generation of Sega's home game business, which accounts for 66% of total revenue. And this time, Sega isn't the hunter, it's the quarry. Nintendo is determined to recapture market share with an advanced game machine it's developing with Silicon Graphics Inc., the maker of engineering workstations. Atari has jumped back into the video-game business under new management, offering a sleek system called Jaguar. Commodore International Ltd. and Philips have new machines that incorporate CD-ROM players for games on compact disks. And Sony has demonstrated a CD-ROM-based video machine with stunning graphics, for release in Japan late this year and in the U.S. next year. To create better games, Sony also plans to marshal the firepower of its Hollywood movie studio—something that Sega can't match.

Sega's not-so-secret weapon in the machine wars is Saturn. It plays both compact disks and cartridges, whereas Nintendo's new Project Reality player will at first handle only cartridges. Saturn's computing horsepower lets it create 3-D illusions based on "polygon" images composed of triangles and

four-sided figures called parallelograms. Chips working at furious rates constantly recalculate the geometries as a player moves past them in virtual 3-D space. Nintendo and the rest are also working on polygons, but Sega believes it has an edge through the technology of its arcade business.

Still, Sega sees S. Nakayama wants bet blades. He bemoans the scarcity of developers capable of creating blockbuster games. Customers, he says, are tiring of the same racing and fighting tricks and want something new, whether it's virtual reality or just better story lines. "The problem today," he says, "is that game software has run into a dead end."

To turn things around, Sega is pushing the efforts of software labs in Japan and the U.S. Teams of artists, programmers, and writers collaborate to create games. Musicians have their own studios to record game sound. Sega has even set up a studio in Hollywood to produce interactive games, in which many possible outcomes are filmed and a player's actions determine

which one appears on the screen.

From Sonic to Zanuck isn't an easy transition, even for a company with Sega's gung-ho spirit. Tom Zito, president of Digital Pictures Inc., which makes movie-style games for the CD-ROM add-on for the Sega Genesis, says he has great respect for Sega, but adds, "This is still very much a company that makes video games. Going from that to doing TV programming is a big leap."

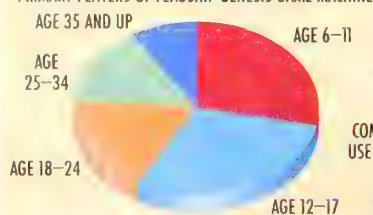
Besides that, girding for all these ventures has sent Sega's costs soaring along with its revenues. Its worldwide employment has tripled in three years, to some 5,200. And now everyone is seasoned: One game producer says he often gets calls from complete strangers asking about his products—or to find they are new hires at Sega managers.



TRANS-PACIFIC DUO
U.S. CEO KALINSKE IS
NAKAYAMA'S POINT
MAN FOR MARKETING

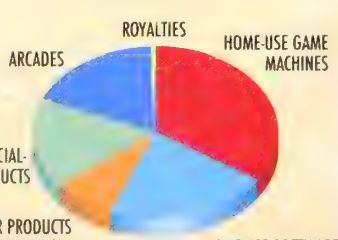
WHO SEGA'S CUSTOMERS ARE...

PRIMARY PLAYERS OF FLAGSHIP GENESIS GAME MACHINE



DATA: SEGA OF AMERICA INC.

...AND WHERE ITS MONEY COMES FROM



DATA: GOLDMAN, SACHS & CO.

NINTENDO'S YAMAUCHI: NO MORE PLAYING AROUND

After months of being bloodied by Sega Enterprises Ltd. in North America, Nintendo Co. president Hiroshi Yamauchi is taking off the gloves. In a talk with **BUSINESS WEEK** at his spartan headquarters in Kyoto, Yamauchi revealed a plan to coup market share. Many details remain vague. But the stern, 66-year-old patriarch of Japan's biggest game company made one thing clear: He'll make big changes in the way Nintendo manages its U.S. operation, promotes its products, and develops games.

His first priority is fixing the disaster in the U.S. market, where Nintendo's share of the 16-bit machine business plummeted from 60% at the end of 1992 to 37% a year later, according to Goldman, Sachs & Co. With surprising candor, Yamauchi lays part of the blame on his son-in-law, Nintendo of America Inc. President Minoru Arakawa. When Sega started running comparative ads in 1990, Nintendo failed to respond. In effect, says Yamauchi, Arakawa "allowed Sega to treat our games as children's toys. It is a serious mistake."

NOTICE. Yamauchi expects Arakawa to change his style—and hand more responsibility to senior American executives. "I'm giving him another chance," says the president. "But even in Japan, if results don't improve, you don't stay in a job." Informed of those comments, Arakawa issued a statement promising that "1994 will be the most aggressive marketing year Nintendo of America has ever seen."

What stopped Yamauchi from acting sooner is that the U.S. unit did so well under Arakawa's early stewardship. From 1987 to 1991, Nintendo's exports to the U.S. grew eightfold. Americans have snapped up over 65 million Nintendo game machines since they went on sale in 1985. But growth has slowed in the past year, and profits are falling. Baring Securities analyst Joseph Osha in Tokyo says Nintendo's net earnings could drop 40% this year, to about \$920 million.

The way to shore up profits, says Yamauchi, is to cut dependence on low-margin hardware sales and bring more of the profitable software production house. Until now, Nintendo has ceded much game development to independent companies such as Capcom (Street Fighter) and Konami (Batman). Games developed in-house account for only 35% of software sales for Ninten-

do machines, while Sega says its figure is about 45%. And recently, Yamauchi says, there have been too many lackluster games.

So for the Project Reality game machine due next year, Yamauchi will develop most of the initial games in-house or through joint ventures. He'll let independents have the software "tools" to create games. But he'll shun the big software conferences that Sega and 3DO have used to encourage independents. "We're better off, at first, with a few good titles," he says. "Lots of software just means lots of bad software." The other part of Yamauchi's new strategy departs even further from the

consumers pay for CDs, which cost only a few dollars to produce, vs. \$50 plus for the newest cartridges. CD-ROM systems also require more time than cartridges to seek out and display images on the screen. That's a drawback for games that are supposed to test hair-trigger reflexes. And developers have had trouble mastering the complex CD-ROM format, so there are few good CD games. Even Sega President Hayao Nakayama, who is committed to the new format, says "CDs will require a major change in consumer mentality."

Yamauchi has other cards to play. Even as Nintendo and partner Silicon Graphics Inc. create the 64-bit Project



conventional wisdom. He says Project Reality will initially play only cartridges, not the trendy compact disks adopted by Sega, Sony, 3DO, and others.

CHEAPER, QUICKER. This means the machine won't at first be able to play extended video clips, which add an air of reality to many new games. Games for it will have to be smaller, offering fewer settings and shorter stories. That's because its cartridges will hold only about 100 million bits of information—a fair chunk, but nothing like the 4 billion bits that a compact disk can hold.

Why steer clear of CDs? Because the CD-ROM-based machines required for CD games are at least double the price of cartridge machines. Yamauchi thinks that more than offsets the lower price

**FLYING SOLO NINTENDO
WANTS TO DEVELOP
GAMES IN-HOUSE
WHENEVER POSSIBLE**

Reality machine, he is considering investing in a multimedia venture planned by SGI's departing founder, James H. Clark. He

is also exploring a project with chip and computer giant NEC Corp., based on a proprietary NEC microprocessor unveiled in January.

By bucking some of the latest industry trends, Yamauchi exposes Nintendo to further criticism. But as he points out, its market share has held up in Japan, the No. 2 video-game market after the U.S. Nintendo has prospered not by listening to analysts but by following Yamauchi's instincts. So it may be a bit early to discount the latest intuitions of this aging lion.

By Neil Gross in Tokyo, with Robert D. Hof in San Francisco

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contrast to Sega's scattershot style, Nintendo prides itself on lean, tested management. With \$5.2 billion in revenues, it has just 2,500 employees.

That said, most industry observers concur that Sega has been smart to bulk up with fresh talent for the grueling wars ahead. No less than a third of the company's employees work in research

and development. Indeed, it is Nintendo rather than Sega that "has gotten flabby," says William M. "Trip" Hawkins III, chief executive of 3DO. "Sega is like an athlete ready for the Olympics."

In short, Sega has as good a chance as any company of grabbing some of the long-promised multimedia gold. After all, the world isn't exactly overflowing

with multitalented companies that pull off the convergence shtick. That's why so many corporations—from AT&T to Time Warner to Hitachi—are making deals with this Japanese-American year-old overnight success.

By Richard Brandt in Redwood City and Neil Gross in Tokyo, with Peter in New York and bureau reports

WELCOME TO THE NEXT LEVEL, CHIPMAKERS

For many chipmakers, it's the Holy Grail. Nintendo Co., Sega Enterprises Ltd., and others expect to make some 40 million video-game machines over the next five years. And every one will need at least one microprocessor—the same type of brain found in personal computers—to run the fastest and flashiest games yet. "This is a major, major opportunity," gushes Larry Jordan, marketing vice-president for chipmaker Integrated Device Technology Inc. (IDT).

Like any consumer electronics market, it's a risky one. But the winners could win big. A few years from now, the new microprocessors could even lead to video-game machines that double as cable-TV controllers, e-mailboxes, and all-around on-ramps to the Info Highway.

RISC FACTOR. That tantalizing prospect underlies a market battle the Japanese are calling *Sengoku Jidai*, after the Period of Warring States that preceded Japan's 17th century unification. The spoils won't automatically go to Intel Corp. and Motorola Inc. Their mainstream chips weren't designed for the fast graphics, small size, and low cost of game machines. And neither has specialized in the speedier, more efficient microprocessor technology called reduced instruction-set computing (RISC) that advanced game machines will use. So everyone from IDT, LSI Logic, and VLSI Research in the U.S. to NEC, Hitachi, and Toshiba in Japan has a shot at the business.

For now, at least four licensees—NEC, Toshiba, IDT, and LSI Logic—are fighting it out to sell gamemakers MIPS RISC chips designed by Silicon Graphics

Inc. So are at least three manufacturers of the chip from Advanced RISC Machines Ltd. (ARM)—GEC Plessey Semiconductors, VLSI, and Sharp. Motorola still hopes to get its PowerPC RISC chip, designed with IBM and Apple Computer Inc., into consumer devices. And Sega will use an Intel RISC chip in its newest arcade machine—which could give Intel a way to expand in the commercial market.

The battle is all the more heated because there won't be as much profit as in PC and engineering-workstation microprocessors. Those chips usual-

head of communications systems at Ricoh, thinks games could provide an entry tree for budding Japanese microprocessor contenders such as Hitachi Ltd.

Still, U.S. chipmakers have some advantages. They have a history of designing the most advanced chips. And they have already started selling these for consumer products—often at rock-bottom prices. Some of VLSI Research's ARM chips, which are used in 3DO's game player and in Apple Newton, sell for less than \$10.

Chip designers are trying to cut the cost even more. For one, they're deleting computer-oriented circuits such as those that do number crunching. The resulting chips are cheaper to produce and fit in smaller, less expensive packages. Manufacturers are also trying to reduce the overall system cost by integrating graphics and other chips into the microprocessor. LSI Logic, for instance, can graft graphics circuits onto a MIPS microprocessor to form a one-chip "video computer engine" for low-cost game players and cable-TV boxes.

Ultimately, chipmakers hope that video game machines, connected via TV to the Information Superhighway, will evolve into the ubiquitous home computer that the PC has never quite become. "Advanced game machines could eventually start to encroach on the PC turf," predicts Hideki Sato, director of research at Sega. If so, those who make chips for games might one day loosen Intel's and Motorola's grip on the joystick.

By Robert D. Hof in San Francisco with Neil Gross in Tokyo



A NEW GAME FOR MICROPROCESSORS

The opportunities chip companies see in video games



CHIP DESIGNER

SILICON GRAPHICS

BUYER

NINTENDO

Silicon Graphics and its licensees are developing a chip for Project Reality game machine due in 1995.

HITACHI

SEGA

Sega's Saturn game machine, due possibly late this year, should give Hitachi an important market.

SILICON GRAPHICS/SONY

SONY

Sony isn't talking about this game player, which might come out late this year. It will use older chips to hold down the price.

ADVANCED RISC MACHINES

MATSUSHITA

ARM's chip sells for under \$10, but the machines that use it—built by Matsushita to 3DO's design—are not selling well.



NEC

NINTENDO

Nintendo is planning a mystery product based on NEC's V800 low-power-consumption chip.



DATA BUSINESS WEEK, COMPANY REPORTS

ly cost hundreds of dollars apiece and earn 60%-plus gross margins. But microprocessors in \$250 to \$700 video-game machines have to run \$20 or less, says Michael Slater, publisher of the newsletter *Microprocessor Report*. That puts a premium on efficiency.

And that seems to favor the Japanese, the masters of high-volume production. Yamaha and Ricoh already supply video-display chips for Sega and Nintendo machines. Kazuyuki Baba,



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DON'T LEAVE HOME WITHOUT IT, WHEREVER YOU LIVE

AmEx is launching a huge campaign to lure overseas business

Next month, a business traveler unpacking his bags in a hotel in Mexico may turn on the TV and come upon an ad of an entrepreneur sitting in her Mexico City restaurant, talking in Spanish. The foreign-looking ad will grow increasingly familiar as it unfolds in a stream of images to a shot of American Express Co.'s trademark Green Card.

It will mark the latest stop in one of the more ambitious global advertising pushes in recent years. The effort began a few months ago, when AmEx' Travel Related Services (TRS) unit launched a series of testimonials for the charge card in Britain, Italy, Germany, and Japan, featuring such merchants as British designer and retailer Sir Terence Conran, German hotelier Karl Nuser, Italian fashion designer Ottavio Missoni, and Japanese innkeepers Koin and Emiko Horibe. The spots extended a series that began a year earlier in the U.S. with business celebrities such as Southwest Airlines Co.'s Herbert D. Kelleher and Toys 'R' Us Inc.'s Charles Lazarus.

In the next year, AmEx plans to expand the effort to nearly 30 nations and 60 ads, extending from Hong Kong to Singapore, Spain, and Brazil. It's the latest front in the company's battle to get cardholders to reach for it over Visa or MasterCard. And it's a high-stakes affair: TRS will spend about half its estimated \$200 million worldwide media budget on the U.S. and foreign ads.

AmEx has been telling people it's a global brand for years. Its network of offices around the world has been a staple of TV ads since Karl Malden exhorted

Americans not to leave home without it. While AmEx has lagged the bank cards in global expansion—more than half of Visa's business is now done overseas—it has a sizable foreign business. Some 10.7 million of the 35.4 million AmEx cards in circulation in 1993 were outside the U.S., as was \$34 billion of its \$124 billion in charges. Moreover,



AROUND THE WORLD IN 60 ADS



AmEx' core customers, affluent business travelers, are smack in the emerging class of global consumers traversing time zones for business and pleasure.

Marketers have other reasons to watch the new push. AmEx is trying to chart a middle ground in the debate over how multinational companies should advertise their brands abroad. For years, observers have argued the merits of running the same ads around the globe to create a consistent brand image vs.

turning over ad duties to the field to be sensitive to local culture.

Neither was right for the card, contends Aldo Papone, the 61-year-old retired TRS chairman, who was called in 1992 to advise AmEx on its tattered advertising image. "You have to be conscious of local attitudes and economic conditions," he says. "But, in fact, 80% of the emotional element of our brand is the same around the world." Papone wants AmEx to be both "global and local." He turned to his lead agency, Ogilvy & Mather Worldwide, with a mandate: what it takes to create a series of ads that will give traveling cardholders the same campaign they see at home but will look like a domestic effort to local viewers.

In the 10 months since, O&M's New York-based creative team has scrambled from British gardens to the jungles

of Thailand in an operation that has thrown them together with countless agencies around the world. O&M Executive Creative Director Rick Boyko, who averaged

AmEx' global campaign will target mostly 30 countries over the next year. Estimated budget: \$100 million. The goal: to reach both local and global traveling cardholders.

20,000 miles a month in the air for the first six months of the shoot, likens the experience to "signing on for the Foreign Legion."

Considering the war TRS has waged the past few years, the Foreign Legion might come in handy. The 1990-91 recession roiled AmEx as companies cut travel-and-entertainment spending and cardholders and merchants rebelled against its high fees. A proliferation of no-fee Visa and MasterCard entries chewed up market share. In an attempt

ast off the card's 1980s image as a
ie status symbol—epitomized by the
by, celebrity-studded "membership
its privileges" ads—AmEx switched
a longtime agency O&M to Chiat/Day
Advertising. The resulting ads,
th showed giant cards on golf cours-
nd in restaurants, did little to help.
he new ads are the latest piece of an
haul of American Express marketing
has paralleled its higher-profile cor-
te restructuring, which recently pro-
ed the announced spin-off of its Leh-
Brothers Inc. unit. In both cases,
strategy is to focus on core card-
ers. AmEx cut merchant fees, broad-
d its merchant base from mainstay
ls and restaurants to a growing
ber of mass merchants, and geared
requent-flier and other incentives to
cardmembers to use the card more.
ally important, the economy picked
Average spending per card rose
%, to \$3,581, from 1991 to 1993.

AL COLOR. The current campaign,
ch O&M pitched to wrest back the
ness, took the ads back to the card's
e values—"places you want to go,
le you want to be," says Rochelle B.
arus, president of O&M's New York
e. All the spots follow a basic formu-
merchants expound on their business
osophies, then talk about the card.
brity stardust is out; entrepreneurial-
blow grease is in—with a free plug
the merchants along the way.

he global ads follow a similar
pt—with distinctive details that set
n apart from cookie-cutter testimoni-
Title cards in the ad for Nuser's
sauer Hof hotel in Wiesbaden are
igned to look like baggage stickers.
ican restaurateur Laura Anderson's
en Card is filmed against a back-
und of chili peppers. A spot with
gans Restaurant in London—co-
ied by actor Michael Caine—shows
eckie fluttering from a ceiling fan.
ad with Hamburg's Fischereihafen
sh Harbor") restaurant includes a
; nighttime pan through the red-light
rict, dubbed "the Shady Mile," that
ls pass through to get to the eatery.
t made the Americans uneasy; the
mans assured them it was part of
experience of the restaurant. In the
-sensitive world of advertising, how-
r, such cooperation didn't always
e easy. O&M staffers acknowledge
ately that some of the foreign spots
ied out better than others.

he original U.S. ads in the new cam-
gn "have been effective" in keeping
holders, a rival card marketer con-
es. The next test will be how well
erican Express sends its message
reases, because this is a war that is
y being fought around the globe.

By Jon Berry in New York

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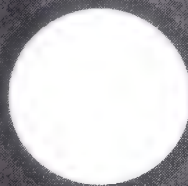
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RED INK, WIRETAPS, AND DEATH THREATS

Ken Sawyer's punishing four-year ordeal at Par Pharmaceuticals

Kenneth I. Sawyer's trip into the underworld of the generic-drug industry began with a phone call from Perry Levine in August, 1989. Sawyer was on a rare vacation with his family in Kennebunkport, Me., when Levine, the head of a generic-drug maker named Par Pharmaceutical Inc., called to request Sawyer's legal counsel. Par had been a highflier in the hot generics business but was now embroiled in an industrywide scandal involving charges ranging from bribing Food & Drug Administration officials to falsifying test reports. A House Energy & Commerce oversight and investigations subcommittee was preparing legislation that could shut down Par, and Levine needed help with state and federal regulators.

The case seemed tailor-made for Sawyer. He was known as something of a bloodhound after five years spent early in his career as a Philadelphia district attorney. He also knew a lot about the generic-drug business. After quitting his D. A. job in 1975, he focused on generic-drug companies when he joined the Fort Lauderdale, Fla., law office of Buffalo's Hodgson, Russ, Andrews, Woods & Goodyear. In 1979, he hired on with Fort Lauderdale's Goldline Laboratories Inc. and became president of one of the generic-drug maker's subsidiaries.

PURGE. So, soon after Levine's call, Sawyer packed up for Par's headquarters in Spring Valley, N.Y., leaving his wife and kids behind in Florida. But what began as a 90-day commitment ended up as a four-year ordeal for both him and his family. His role as outside legal counsel quickly expanded to chief executive and internal sleuth—a job requiring him to purge 35 executives, shut down a key unit, and rewrite Par's drug-development procedures. There were wiretaps and death threats. Work at times often included a bulletproof vest.

Sawyer has succeeded in clearing Par's name with regulators and law-enforcement officials. But the company still faces an extraordinary competitive challenge in an industry pressured by

health-care reform. Says the 48-year-old executive now: "I just didn't understand how deep Par's problems were."

Par was certainly not the only generic-drug company in trouble when Sawyer signed on. During the 1980s, a dozen other companies, including such Wall Street darlings as Bolar Pharmaceutical Co. and Vitarine Pharmaceuticals Inc., were implicated by authorities, as were several officials at the FDA.

Par's management structure was already collapsing. Set to retire was Perry Levine, who at 68 suffered a long-term illness that had prevented him from testifying before the House oversight subcommittee. His son, Jeffrey M. Levine—Par's sales chief—was suspected by the FDA of conspiring to cover up wrongdoing. (He was indicted for perjury in January and is awaiting trial. He won't comment.) Also under investi-

gation were R. K. Patel, head of R&D, and Ashok Patel, head of production (a brother-sister relation), who had both already resigned. Par's three remaining outside directors were largely preoccupied with avoiding shareholder suits.

Sawyer's first taste of Par's corporate culture came soon after he arrived. He says Perry Levine offered him a part-time job—with a Ferrari as a sweetener. Sawyer says the implicit message was "Help us, don't hurt us." Levine, who was never implicated in the scandal, is currently hospitalized for his illness and couldn't comment for this story.

Sawyer declined the offer, but when Levine resigned a few weeks later, the board named him CEO. "There was a blank slate," he says. "You had to turn over every rock—literally rip the carpet apart." Problem was, the state and federal officials bearing down on Par didn't trust him any more than they did former management. "He may have been new," says a House subcommittee investigator. "But as far as we were concerned, he was an outsider with ties to the generic-drug industry."

BRIGHT SPOT. To keep regulators at bay, Sawyer made them a deal: Not only would he cooperate fully with their investigations, but he would also launch his own and report back with any evidence of wrongdoing. If necessary, he promised to close the company down. After much prodding, officials accepted Sawyer's offer. Says prominent analyst Hemant Shah: "The best thing Ken Sawyer did was to aggressively negotiate with the FDA."

By early 1991, Sawyer felt he was making progress at Par, but the job was already taking a toll on his family. He had moved them from Florida to Kennebunkport so he could more easily be home on weekends. Yet even before he took the new job, Sawyer's wife Linda was frustrated that Ken's workaholic tendencies were keeping him away from her three daughters (from a previous marriage) and their six-year-old son, Landon. She had learned to accept that "work is the most important thing in his life." The children, though, had a harder time with his absences, she says.

By his own admission, Sawyer was oblivious. He had become obsessed with fixing Par. Now that regulators had given him some slack, he could focus on the core business—or what was left of it. Par had 1989 sales of \$55 million from such hot-selling drugs as orphenesin, a mild muscle relaxer, and calcium levodopa, used in cancer therapy. But it suffered \$1.7 million in third-quarter losses due to product recalls, fines, and

HOW SAWYER CURED PAR

1989

Convinced state and federal pharmaceutical boards to withhold suspension of drug license. Began cooperating with federal probe while lobbying Congress to slow legislation that would shut Par down.

1990

Began firing executives and managers. Closed down scandal-ridden subsidiary, Quad Pharmaceuticals.

1991

With new executives and board of directors, began overhauling company's drug-making processes and boosting spending on R&D.

1992

Began reintroducing products and establishing distribution agreements.

1993

Won FDA clearance for new drug approvals.

DATA: BUSINESS WEEK

tain write-offs. While had a strong distribution network and \$7 million in cash, it was spending \$3 million a month on lawyers, consultants, and auditors. So Sawyer slashed 300 of the company's employees within months of his arrival. Par's only bright spot was its Quad Pharmaceuticals Inc. subsidiary, a maker of injectable drugs that was 40% owned by Par management. At first, Sawyer saw it as a potential savior. Quad, with annual sales of \$55 million, was generating \$11 million in profits, \$11 million of which flowed to Par. But when Sawyer tried to make an initial investment, some Quad managers blocked him. "If you're in here, you'd be sabotaging yourself in the long run," he recalls being told. Sawyer sued to gain access, and what he found, investigators say, was a pattern of phony submissions for FDA approvals. Among other things, Quad submitted drug data based on small-size batches rather than the large batches that would be used in commercial production. It's critical because a company's dynamics often change drastically when production is scaled up. The place was completely out of control," says a House investigator. Sawyer's findings led to indictments of three of the owner-managers. Par bought them out and shut Quad in 1990. At Par itself, Sawyer asked all employees to sign a document stating they would disclose anything they knew or suspected pertinent to the investigation. He assured them that they would be protected as whistle-blowers. Several employees took the offer, but not many. In fact, a whistle-blower of sorts had been the one who had implicated Par in the first place. In July, 1989, a fired researcher named Satish Shah had threatened to report senior officials to the FDA if they didn't pay him off. When they didn't, Shah called Washington. He claimed that Par had submitted different formulations of a hypertension drug called triamterene in order to pass both clinical and analytical tests. The drug escaped the agency's scrutiny, but only



SAWYER: CALLED IN AS OUTSIDE COUNSEL, HE BECAME CEO AND CHIEF SLEUTH

one version went into production. (The FDA requires that the same formulation pass both sets of tests.) The FDA launched an investigation of Par officials, including Ashok and R. K. Patel. The missing link: a sample of the formulation that didn't go into production.

Sawyer found that for the investigators. As executives left the company under fire, Sawyer made it a practice to search their offices. Snooping around one night, he found a set of keys to R. K. Patel's office credenza and looked inside. Incredibly, he found a bottle marked triamterene, which proved to contain the missing sample. Says one federal agent: "It was a very helpful piece of evidence." It led to guilty pleas by both Patels for conspiracy to obstruct the regulatory functions of the FDA.

Eventually, Sawyer's audits and interviews led to the dismissal of 35 managers. Twelve have been convicted. He

voluntarily recalled several drugs that the FDA hadn't yet suspended and revamped the development process to institute a rigorous set of protocols that FDA officials say have since been adopted by most of the generic industry. Gradually, subject to external audits, the FDA allowed Par to reintroduce some products. But Sawyer figured that the only way he was going to generate any real short-term revenue was to tap Par's distribution network.

His fix-it plan was a combination of trying to lure in new executives while crisscrossing the country in an attempt to convince other drugmakers to let Par distribute their drugs. In early 1993, Sawyer set up such an agreement with Genpharm/Alphapharm, a generic-drug outfit with operations in Australia and Canada, to distribute a generic version of Xanax, Upjohn Co.'s blockbuster anti-anxiety compound.

THREATS. Meantime, however, Sawyer and his family were dealing with another onerous problem: threats to their safety. Law-enforcement officials confirm that in January, 1990, Satish Shah had surfaced again—this time demanding that Sawyer

pay him \$300,000 or face more disclosures about Par's former practices. Sawyer agreed to meet with Shah, but he alerted the FBI. Twice, he met with Shah in a wire-tapped room at the Woodcliff Hilton in Spring Valley as FBI agents eavesdropped from an adjacent room. During the second meeting, the agents stormed in and interrogated Shah.

Shah had made an implicit threat when he first called Sawyer. And at a shareholder's meeting in the spring of 1992, he appeared again, stating: "I have a claim against this company, and unless I'm taken care of, there's no telling what I'll do to you." He was arrested and charged with conspiracy to defraud the FDA in June, 1992, but out on bail, his threats intensified. Sawyer also received two anonymous, threatening letters and found a ream of press clippings about workplace shootings taped to the walls in Par's offices. Three times, the U.S. Attor-

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People

ney urged Sawyer to get a bodyguard.

All the while, Linda was concerned about Sawyer's safety. It was more like being married to a cop than to an executive: When he returned to Kennebunkport on weekends, she found him sleeping wearing his bulletproof vest. When she visited the office, armed guards had to walk her back and forth to the car. "I thought it was horrifying," she says.

The threats ended after Shah was convicted of conspiracy and jailed for a year. (He has appealed.) And Sawyer has moved his family from Kennebunkport to Westport, Conn., where he tries to get home early enough each day to spend more time with his son. Landor is now 11, and Linda says he doesn't really know his father after Sawyer's four-year absence. "We're trying to put things back together," the elder Sawyer says. "He's angry, but we'll work through it."

PRICE DROP. As for the company, Sawyer has a ways to go. Par has paid \$2.8 million in fines as a result of federal and state disciplinary proceedings. Without admitting guilt, it has settled 12 shareholder suits and other civil actions for \$21 million. Eighty-six of its drugs are back on the market, and 26 more are awaiting FDA approval. Par's public-traded parent, a holding company called Pharmaceutical Resources Inc., has been profitable since 1992, and analysts believe it can increase sales 26%, to \$1.1 billion, for its 1994 fiscal year. The stock, which hit a high of about 27 in 1987, bottomed out below 3 in 1990 and is now trading at about 13.

But Par is hardly in robust health. Most of the compounds in its pipeline are copies of drugs that have long since come off patent—meaning other companies have gotten a valuable head start marketing their own versions. The sales increase, meanwhile, will come largely from reintroducing drugs Sawyer pulled voluntarily to appease FDA officials. In other words, Par has lost four valuable years in the marketplace just as the specter of health-care reform has put heavy pressure on prices. The generic version of Xanax, for instance, sells for 81% less than it did when Upjohn's drug first came off patent in October, 1990. "The prices of generics have fallen apart," says analyst Shah.

Sawyer has proven he can manage a company through a legal firestorm and an operational crisis. But the question remains whether he can make Par prosper amid unprecedented competition in the drug industry. "Now, I can stop running a law office and start running a business," Sawyer says. Unfortunately, it's not likely to get much easier.

By Ron Stodghill II in Spring Valley, N.Y.

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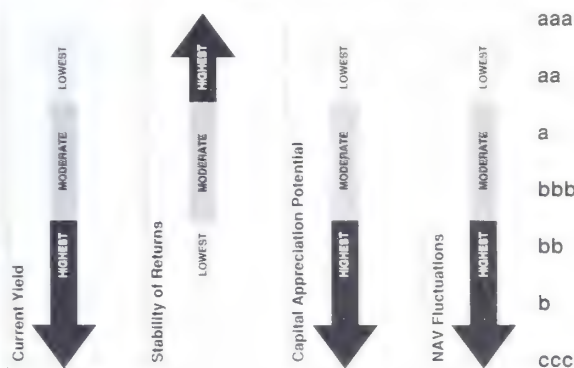
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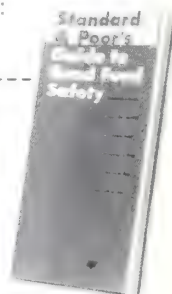
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ISOM QUICKLY DROPPED A \$60 MILLION ACCOUNT—A MONEY-LOSER LONG ON THE BOOKS

CIGNA SEIZES THE SHEARS

The giant insurer trims offerings to get nimble

It's crunch time for Gerald A. Isom. As the new president of CIGNA Corp.'s big property/casualty (p/c) division, his task is to stem its growing losses—or risk having CIGNA wash its hands of the unit. Isom isn't the only executive at CIGNA facing a tough challenge: The insurance giant's health business, which combined with p/c makes up more than 50% of CIGNA's \$18.6 billion in annual revenues, is threatened by federal reform proposals. Other divisions are also under pressure. So CIGNA is re-examining its long-established identity as a provider of a broad range of insurance services. "We are simply not going to be all things to all people," says Chairman and Chief Executive Wilson H. Taylor.

CIGNA's troubles are emblematic of those plaguing many other huge multiline insurers. Size is no longer synonymous with success. Big corporate customers who used to give most of their business to one insurer are now shopping around, allowing a growing raft of specialty insurers to provide increasingly potent competition. By focusing on a

single line of business and eschewing networks of agents, they are offering lower-cost services. To maintain their hegemony, the multilines will have to emulate their smaller, nimbler rivals. "Insurers can't be everything to everyone and do it well," says Michael A. Lewis, a Dean Witter Reynolds Inc. analyst. "There's a movement afoot to concentrate capital where they can get better returns."

To cope with these trends, CIGNA last year began a dramatic overhaul. It slashed unprofitable lines, such as workers' compensation, cut thousands of jobs, and launched specialty products, such as variable annuities. With many of its businesses profitable, analysts see promise if Isom's division turns around: "The potential is enormous if they can fix their problems," says Weston Hicks, an analyst with Sanford C. Bernstein & Co.

He sees possible earnings growth of 10% to 15% for the rest of the decade.

Analysts peg CIGNA's earnings at \$3.50 per share, or \$378 million in 1994, 43% from the \$3 per share, or \$216 million, that's expected when CIGNA reports 1993 results on Feb. 14. Such optimism caused CIGNA's stock to trade above \$40 per share in January for the first time since 1986.

The stock won't remain so buoyant if CIGNA is unable to fix its p/c problem. The unit has lost \$1 billion since 1986. While cash cows such as managed care and pension benefits have offset the drain, they can't carry the business forever. And the division's poor results affect all of CIGNA. Standard & Poor's downgraded CIGNA's life operations from AAA to AA+ last November because of concerns about property/casualty. In summer, S&P downgraded CIGNA's business from A to BBB+.

"PIECE OF JUNK." CIGNA's p/c troubles date back to 1986, when the company had to set aside \$1.2 billion in reserves for environmental claims. Over the next few years, high internal expenses and too many bad risks pushed up costs from \$1.06 for each \$1 in premium income in 1987 to an estimated \$1.24 in 1993, when the industry average was \$1.13.

Efforts to fix the p/c unit backfired in the late 1980s, the insurer raised prices

across the board in an attempt to improve profits. But that alienated customers. Businesses with low claim rates left, finding cheaper prices elsewhere. That left CIGNA with only high-risk employers who file larger-than-normal claims. "The only way you could do business with CIGNA was to give them a piece of junk that nobody else would," says V.C. Jordan Jr., president of Po-



Brown Inc., an insurance broker.

Last March, CEO Taylor launched a last-ditch attempt to save the business. He hired Isom, Transamerica Insurance Group's no-nonsense ex-president. Isom, 55 years old and a 35-year insurance veteran, looked hard at CIGNA before accepting the job: "I knew it had problems. That's why I was approached."

Isom says the unit was a "monolith" when he came on board—huge and slow to react. One of his first moves was to clear out many longtime CIGNA executives.

s. He made waves by dropping a million account that had been kept he books for six years even though st money each year. Says Isom: "The ders have been on too long." o help his reform effort, Isom hired wn quantities. Former Transamerica ciate Richard W. Wratten now runs commercial p/c business. Wratten Isom slashed CIGNA's agent base 1 3,200 to 1,000, pruning about \$350 on in premiums. "The whole idea is lease the books," says Isom. "It is a s on profit, rather than premium vth."

DER THE MARKET. The result: P/c niums fell from \$6.4 billion in 1990 to stimated \$5 billion in 1993, while oper- g results, says Isom, will improve in . Eventually, he adds, premiums will ease again. CIGNA says it stands be- the p/c business and has no plans to



Premiums in property and casualty have fallen, but the division's earnings may rise again because of the cuts

shutter it. Feelings run deep for the unit: Its loss would mean that any remnant of INA, which merged with Connecticut General in 1982 to form CIGNA, would be gone. Industry sources, though, don't expect the p/c unit to be profitable at least until 1997 and say the unit could be shut down or spun off if it doesn't improve.

Isom isn't the only CIGNA executive

involved in serious retooling. Take Lawrence P. English, president of CIGNA Healthcare, the company's most profitable division, which is expected to earn \$410 million in 1994. Yet English is well aware that health-care reform could squeeze insurers' profits, so he is eliminating 1,000 jobs. "We're both making these changes," notes Isom. "One to stay out front and the other to get out of a hole." Says English: "I want to price myself under the market."

Perhaps the most visible sign of CIGNA's struggle to remake itself is its new corporate logo: a tree that the firm calls "the tree of life." Isom and English want to preside over strong branches. If not, a symbol that CIGNA rejected may be more fitting: a road growing out from the "I" in CIGNA that executives called "the road to nowhere."

By Chris Roush in Philadelphia

ESTATE

THE REAL HOME-SHOPPING NETWORK

As computers are easing the chore of house hunting

Swyneth Shopalovich was dreading it. While she and her husband were anxious to move out their apartment and into a house, the stories they had heard about se hunting—months of trudging ough home after home—made it seem iting. And busy schedules and long mutes didn't leave the couple with h time. So when her husband saw d for computer-assisted home buying *the Boston Globe*, they looked into it. r, three computer hours, four home s, and a successful purchase later, palovich marvels: "It was the most less thing you can imagine."

hat's music to Robert Norton's ears. on owns HomeView Realty Search Centers in Needham, Mass., the service that palovich and her husband l to find their home and of a growing number of panies finding new ways echnology to make house ing easier. HomeView, in h IBM's Fireworks Part- , a multimedia joint-ven- division, holds a minority e, has three "viewing cen- " in the Boston area re potential buyers can in criteria such as loca- price range, or architect- l style, and then electron-

ically sift through digitized color photos of homes that local agents list with HomeView. Norton, who is looking for additional investors to help finance a national rollout, isn't the only entrepreneur sensing an opportunity. Driven by consumer demands for better service, more real estate agents are finding new electronic systems an effective way to attract clients and speed the process.

TAKING ACTION. Such efforts present a challenge to the Chicago-based, 750,000-member National Association of Realtors. Many perceive the multiple-listing system (MLS) of homes for sale as the NAR's main asset. The multiple-listing system has long carved up the country

into small pockets, with brokers having to pay fees for access to other area listings that may be on a different computer system. Now, with relocation on the rise and more working couples with less time, there is increased demand for easily accessible, nationwide listings, which new technology-based services such as HomeView are eager to provide.

That has spurred the NAR to action. It recently unveiled a plan to spend \$11 million to connect the legion of multiple-listing systems in the U.S. and offer such new services as helping find financing, insurance, and title companies. Says Dick Dillingham, a realtor with RE/MAX in Dallas: "The catalyst is the fear that competitors will come in and provide better service than the MLS."

Some technology-savvy realtors are attracting buyers by opening up where consumers shop. In malls and Wal-Marts across the country, they are installing kiosks with touch-screens that buyers can use to scroll through pictures of homes. Multimedia efforts are even under way. Electronic Realty Associates in Overland Park, Kan., is developing a

CD-ROM product. ERA's "electronic integrated system," to be launched in 1995, would allow a viewer to touch a floor plan and go through a simulated guided tour of the home, complete with audio that keeps pace. Viewers can't actually interact by, say, opening closets, but "it's virtual reality, almost," says a company spokesman.

As the high-tech gimmicks flourish, eager realtors are hoping for rewards that will be a lot more than virtual.

By Suzanne Woolley in New York



TAKING AN ELECTRONIC STROLL AT HOMEVIEW IN NEEDHAM, MASS.

WHY THE FED'S CRYSTAL BALL IS SO FOGGY

The Federal Reserve's fight for price stability sometimes seems like a struggle against ghosts. The Fed's Feb. 4 decision to nudge up interest rates was based, as much as anything, on a hunch—and an institutional belief that it's better to err on the side of fractionally slower growth than too much inflation.

Unscientific? Imprecise? It sure is. Battling inflation has never been easy, but these days just finding the enemy is a challenge. Because of structural changes in the economy, the old signposts of inflation—growth in the money supply, spikes in the cost of raw materials, and overheated industrial capacity—simply don't provide good early warnings anymore.

Even if they did, the Fed is no longer simply fighting price increases. Its real struggle is against expectations: the fear that consumers will begin to make purchases in anticipation of price hikes. That can set off the kind of inflationary spiral that plagued the U.S. in the 1970s. "The challenge of monetary policy is to detect such latent instabilities in time to contain them," Fed Chairman Alan Greenspan told Congress on Jan. 31. "Unfortunately, they are rarely visible until relatively far advanced."

MIXED MESSAGES. The ability to look down the road is especially important today, when price messages are decidedly mixed. Gold and steel are up; oil and plastics are down. Retail price hikes have been just as spotty. Many increases this year have come largely as a result of special circumstances. Caterpillar's tractors are fetching 4% more than they did a year ago, largely because competitors J.I. Case and Komatsu Dresser have stopped heavy discounting in an effort to stanch their losses. Dean Foods Co. is charging 20% more for frozen vegetables, but last year's flooding is to blame. As a result, business executives don't see much inflation in the months ahead.

It used to be an easier job. Once, the Fed could tell when inflation was coming just by watching for rapid growth in the money supply. But these days, with dollars flowing freely among money-market funds, bank certificates of deposit, and stock funds, it's difficult to know just what all those M's mean. Corporations further cloud the scene by borrowing increasingly from finance

counted for less than 1% of output. His conclusion appears even more vivid today.

Industrial production doesn't tell the Fed much, either. In the old days, alarm bells rang when factories started running at around 85% of capacity. That meant shortages and, inevitably, price hikes. Not anymore. While U.S. factories were running at nearly 85%

by the end of 1993, there were few signs of inflationary bottlenecks. One reason: The expansion of U.S. manufacturing abroad cushioned against excess demand at home. Not enough capacity in Cleveland? No problem, just shift production to Mexico.

THE PAYOFF. Perhaps more important, big efficiency gains have redefined industrial capacity. The government reported on Feb. 8 that in the last three months of 1993, manufacturing productivity rose at a booming 7.8%, dwarfing the 2.9% increase in hourly compensation. The payoff: As leaner companies get more out of both their workers and their machines, business can better meet demand and boost profitability. Says Richard Berner, chief economist at

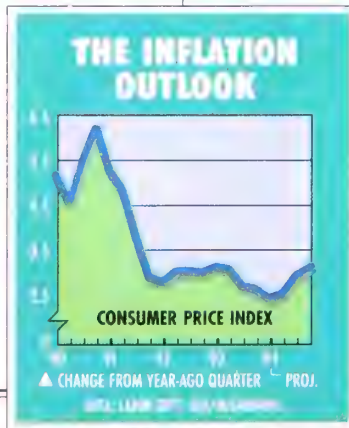
companies—sources that are much harder for the Fed to track.

Commodity prices were once another leading indicator—and bond traders, picking at the entrails of the Commodity Research Bureau's price index, still are convinced they see inflation. But the index is heavily weighted toward agricultural commodities, which tell little about the underlying economy. And measures of industrial materials are becoming less important as technology and skilled labor provide ever more of the economy's backbone. Twenty years ago, economist Joel Popkin found that the cost of raw materials, excluding oil and farm products, ac-

Mellon Bank: "Companies can see the impact on the bottom line, without having to raise prices." And workers enjoy higher wages without triggering inflation.

The U.S. economy is in the midst of a dramatic structural change, more far-reaching than simply a turn in the business cycle. Businesses and workers have struggled to adapt to these changes over the past few years. Now, it's the Fed's turn to wrestle with their consequences—and to figure out how to read the new tea leaves.

Gleckman writes about economic trends from BUSINESS WEEK's Washington bureau.



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BY GENE G. MARCIAL

BEYOND ROSS PEROT: HOW EDS IS THRIVING

General Motors stock has really burned rubber, zooming to 64 from 36 in early 1993. And another GM-related issue seems poised to do as well: General Motors Class E, the stock of Electronic Data Systems, acquired from Ross Perot in 1984 for \$2.4 billion.

EDS, which trades on the Big Board with the symbol GME, has underperformed GM over the past 13 months, "but it is on its way to new heights," says a New York investment manager who has been accumulating shares. He thinks the stock, now at 32, could well double in the next 18 months. That's because EDS Chairman and CEO Lester M. Alberthal Jr. and his nine-person management team have boosted the business and profits way beyond where they were when Perot owned EDS.

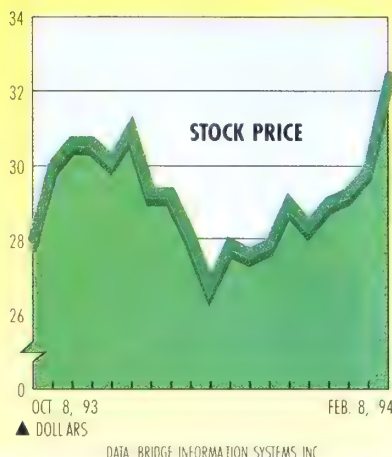
EDS designs, installs, operates, and integrates data processing and communications systems. Its major client: GM. But Alberthal's team has pared down the GM-related business—from 80% in 1985 to 41% now. "Revenues from sources outside GM continued to outpace those from the parent in 1993," says Alberthal.

"DETERMINED." One money manager estimates EDS is now worth six times what GM paid for it. Under Alberthal's low-profile management, EDS's revenues have surged to \$8.5 billion, up from \$926 million in 1984. Earnings have rocketed to \$724 million, up from \$81 million. GM bought out Perot's remaining stake in EDS in late 1986 for \$742.8 million. Alberthal, who has been at EDS for 25 years, took over the leadership when the Perot group left. "Now, he's determined to triple revenues in the next few years and make EDS a world technology leader," says this money pro.

EDS reported record 1993 sales and earnings on Feb. 8 and has been increasing its business overseas—in Europe, Japan, Mexico, and parts of South America. Late last year, Britain's Board of Inland Revenue signed up EDS for its information technology, in a \$1.5 billion agreement spread over 10 years.

Analyst Cathy Baker of Cowen & Co. in Boston calls EDS performance

A BIG BOUNCE AT EDS



"phenomenal," with new business worth \$7.3 billion, up 40% from a year ago. She sees the pipeline becoming even fuller in the next two years, with up to \$35 billion in possible new business. The stock remains a good buy, Baker adds, as she expects the company to earn \$1.74 this year and \$1.98 in 1995, up from \$1.51 in 1993.

A TRADING CARD TO KEEP COLLECTING

SkyBox International is an example of how institutional discovery of a stock can spell the difference between obscurity and overnight success. Until early January, SkyBox International shares had been trading at 3 to 6. Then, after a few meetings between SkyBox President and CEO Frank O'Connell and several analysts and fund managers, the stock started racing, to as high as 11.

SkyBox, which makes and distributes collectible trading cards featuring sports and entertainment celebrities, was spun off in October by its parent, Brooke Group. Financier Bennett LeBow heads Brooke, whose holdings include Liggett Group, a tobacco-products company, and New Valley, formerly Western Union.

Brooke continues to have a controlling interest, but the spin-off "will allow it to emerge from the shadows of its troubled parent," says John Keeley, president of Keeley Investment and a bull on SkyBox. He notes that LeBow intends to reduce Brooke's stake in SkyBox, "which would have a positive impact on SkyBox stock."

SkyBox is a classic example of a spin-off that's underfollowed and undervalued, says Keeley Investment analyst Mark Zahorik. He notes that, prior to the spin-off, an independent appraiser put the value of SkyBox at \$14 a share. That valuation did not include the strong profits the company posted in the third and fourth quarters, he notes. Results in subsequent years, Zahorik believes, will be enhanced by the company's new contracts with Walt Disney, Paramount Communications, and DC Comics to produce cards with their respective film, television, and comic-book characters.

SkyBox is selling at a dirt-cheap price-earnings multiple, says Zahorik. Topps trades at a p-e of 12, while SkyBox has a p-e of 4 times estimated 1993 earnings of \$2.90 a share (untaxed). Zahorik figures it will earn pretax \$3 in 1994.

BELLS ARE RINGING AT CELLSTAR

If cellular phones seem ubiquitous these days, part of the credit goes to CellStar, one of the nation's large wholesalers and retailers of mobile phones. The company, which posted record sales and earnings for the year ended Nov. 30, 1993, is in the midst of expanding operations to Latin America and Asia. "CellStar should generate sales and bottom-line annual growth of more than 30% over the next two to three years," says Bruce Roberts, an analyst at Ladenburg Thumann, which took the company public with Raymond James & Associates, at 11½ a share in early December. The stock has climbed to 18.

Roberts foresees earnings of 85¢ a share this year and \$1.12 next, vs. 5¢ in 1993. Based on such growth, "I think the stock is still undervalued," says Roberts, and it could hit the mid-to-high 20s.

CellStar has key agreements with phone manufacturers, chiefly Motorola for the supply of cellular phones, and with carriers, such as Southwestern Bell, the largest cellular company among the Baby Bells, with about 1 million subscribers. CellStar's retail stores hook up their customers with Southwestern Bell or whichever carrier provides services in the area.

Roberts sees sales rising 63% in 1994 to \$431 million, up from \$265 million in 1993. He thinks they'll rise an additional 35% in 1995, to \$585 million.



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HOW THE BOND FUNDS TACK UP

They had a great 1993, but with interest rates rising, picking the right one is a riskier business

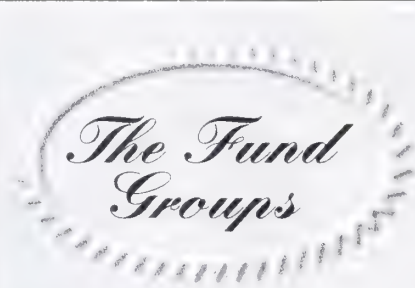
For the past five years, the millions of investors who own bond mutual funds have had powerful friends in places: the members of the Federal Reserve Board. The Fed pursued a policy of easy money that allowed interest rates to fall to levels not seen in a generation. As yields slumped, bond prices rose, and bond investors hit the jackpot. From 1989 through 1993, taxable bond funds racked up average annual returns of 10.5% and tax-free funds (table).

But the era of easy money is over. On Jan. 4, Fed Chairman Alan Greenspan announced that the central bank hiked the federal funds rate, the interest rate on bank-to-bank loans. Greenspan's star-a "preemptive strike" against inflation, as Fed-watchers describe it, may help bring long-term interest rates down. But bond funds will be riskier than they've been in years.

That's why investors, who put \$113.6 billion into bond funds last year, need BUSINESS WEEK Mutual Fund Scoreboard. Here, we review the performance of 55 bond funds: total returns, yields, expenses—and most important, for us, with a five-year track record, the NESS WEEK ratings. These ratings are based not only on returns but on how much risk the funds take on. The ratings and Scoreboard are compiled for BUSINESS WEEK by Morningstar Inc.

OWS AWAY. The 33 funds that earned the highest rating, three upward-pointing arrows, did so because they delivered the highest risk-adjusted returns (see table, page 92). Most of the top-rated funds fall in one of two investment classes. High-yield funds, such as Fidelity Investor High-Yield, a taxable fund, and American Capital Tax-Exempt High-Yield, a tax-free portfolio, post big numbers by investing in low-rated or unrated securities issued by corporations or municipalities. They're making money by taking credit risk.

On the other hand, "low volatility" funds, such as Strong Advantage Fund and Dreyfus Short-Intermediate Municipal Bond fund, get top ratings not be-



Junk bonds helped high-yield and convertible funds post fat returns. And a boom in Third World debt bolstered world bond funds. Municipal bond funds fared well, too, as investors sought a haven from rising taxes.

Fund objective	Total Return*			Best performing fund in 1993
	1993	1991-93†	1989-93†	
CORPORATE—HIGH-YIELD	19.6%	25.1%	11.4%	Dean Witter High-Yield Secs.
WORLD BOND	17.8	10.4	10.4	G.T. Global High-Income A
CONVERTIBLE	15.0	19.1	14.0	Pacific Horizon Capital Income
MUNICIPAL—CALIFORNIA	12.7	10.7	9.6	California Inv. Tax-Free Income
MUNICIPAL—NEW YORK	12.4	11.7	9.9	Rochester Fund Municipals
CORPORATE—GENERAL	12.3	12.9	10.7	Alliance Bond Corp. Bond A
MUNICIPAL—SINGLE-STATE	12.3	10.9	9.7	Fidelity Spartan FL Muni Income
MUNICIPAL—NATIONAL	11.5	10.5	9.4	Sm. Barney Shear. Mgd. Munis A
GOVERNMENT—TREASURY	10.8	11.1	10.9	Stagecoach U.S. Govt. Allocation
CORPORATE—HIGH-QUALITY	9.3	10.3	10.4	Dreyfus A Bonds Plus
GOVERNMENT—GENERAL	7.9	9.2	9.7	Comstock Partners Strategy O
SHORT-TERM WORLD INCOME	7.9	4.8	NA	Fidelity S-T World Income
GOVERNMENT—MORTGAGE	6.8	9.2	10.0	Alliance Mortgage Sec. Income
GOVERNMENT—ADJ. RATE MTGE.	3.6	5.6	7.1	Pilgrim Adj. Rate Secs. I-A
ALL BOND FUNDS	11.7	12.0	10.1	
TAXABLE FUNDS	11.4	13.1	10.5	
TAX-FREE FUNDS	12.0	10.8	9.6	
LEHMAN BROS. INDEXES				
CORPORATE BOND	12.2	13.1	12.0	
GOVERNMENT BOND	10.7	11.0	11.2	
MUNICIPAL BOND	12.3	11.1	10.3	

*Pretax return, capital appreciation plus reinvestment of dividends and capital gains
†Average annual

DATA: MORNINGSTAR INC.

cause they earn high yields but because they run so little risk that their returns shine in risk-adjusted performance. These funds keep price fluctuations in check by investing in short- to intermediate-term bonds. "In 1993, there was never a day when our net asset value moved by more than 1¢," says Jeffrey A. Koch, portfolio manager of the Strong

Advantage Fund. The fund logged an 8.1% total return last year and an average 8.6% a year for 1989-93.

Looking ahead, high-yield and low-volatility strategies still make sense. High-yield, or junk, bonds take their cues from improving business conditions as well as from interest rates. A stronger economy can lift profits and, conse-

Mutual Fund Scoreboard

quently, the credit ratings of junk-bond issuers. So higher interest rates shouldn't damage junk funds as much as government funds, as long as credit quality is improving.

The same goes for the high-yield muni funds, where portfolio managers pick up higher returns by hunting down the

bonds of solid but small and obscure issuers. "The bond issues I buy are too small to bother with a credit rating," says Wayne Godlin, who runs the American Capital Tax-Exempt High-Yield Fund. "But that doesn't make them bad credits." Such bonds pay 1 to 1.25 percentage points more than BBB bonds.

High-yield muni managers can add to their returns by playing economic recoveries. Anne Punzak, portfolio manager of the Fidelity Aggressive Tax-Free Fund, made money by correctly anticipating a turnaround in the financial industry of both New York State and the airline industry. The fund bought New York bonds and tax-exempts whose interest payments are backed by major airlines.

LATIN SPICE. Not all the top-rated funds take big credit risks or minimize interest-rate risk either. A few middle-of-the-road funds can take a bow as well, such as Franklin U.S. Government Securities Fund. The fund invests in Ginnie Mae bonds, which are government-guaranteed mortgage-backed securities. "High credit quality, with moderate price volatility," says Jack Lemein, who runs the \$13.8 billion fund. "It's not for people making big bets on the bond market."

Absent from the top-rated list are the world bond funds, up an average 17% last year. That's because their five-year returns are no better than U.S.-based corporate and government funds, and their volatility is higher. "They behave like sector funds in the equity market," says John Rekenhaller, editor of *Morningstar Mutual Funds*. "They're either at the top or bottom of the list."

Analysts still think foreign bonds will spice up a domestic portfolio. The top-rated Harbor Bond Fund has taken some profits but still has 10% to 15% of its assets in Europe. The Fidelity Investment Grade Bond Fund has a third of its holdings in foreign securities, including dollar-denominated Latin American bonds.

"Strategic income" funds are another way to go global, says Avi Nachman of Strategic Insight, a fund-research firm. Such funds, usually sold by brokers and financial planners, blend junk, government, and foreign bonds to dampen volatility and enhance returns.

Before putting a nickel into any taxable bond fund, consider your tax situation. Muni bond yields are high enough relative to high-quality taxables that even investors in the 28% federal tax bracket can fare better in a muni fund.

That's not all. Muni-bond issuance is expected to fall to about \$160 billion this year, from 1993's \$300 billion. Because of higher tax rates, demand for munis should increase. That means whatever happens to the taxable government-bond market, muni funds should do better. In 1994, muni funds will shelter you from taxes—and perhaps even from a bond-market pullback.

By Jeffrey M. Laderman in New York

Next week: BUSINESS WEEK's annual Closest Fund Scoreboard

The Best Bond Funds

These 33 bond mutual funds have earned three upward-pointing arrows, the highest award for risk-adjusted total returns over the last five years.

Fund	Objective	Average annual total return*
AIM LIMITED MATURITY TREASURY RETAIL	Government—Treasury	7.8%
AMERICAN CAPITAL TAX-EXEMPT HIGH-YIELD A	Municipal—national	9.2
BENHAM GNMA INCOME	Government—mortgage	10.7
BERNSTEIN SHORT DURATION PLUS	Corporate—high-quality	8.2
CALVERT TAX-FREE RESERVES LTD.-TERM	Municipal—national	5.8
DREYFUS SHORT-INTERM. GOVERNMENT	Government—general	9.8
DREYFUS SHORT-INTERM. MUNICIPAL BOND	Municipal—national	7.0
DUPREE KENTUCKY TAX-FREE INCOME	Municipal—single-state	10.0
FIDELITY ADVISOR HIGH-YIELD	Corporate—high-yield	17.2
FIDELITY ADVISOR SHORT FIXED-INCOME	Corporate—general	9.3
FIDELITY ADVISOR HIGH-INCOME MUNI.	Municipal—national	12.1
FIDELITY AGGRESSIVE TAX-FREE	Municipal—national	10.3
FIDELITY INVESTMENT GRADE BOND	Corporate—general	12.4
FIDELITY SHORT-TERM BOND	Corporate—general	9.3
FIDELITY SPARTAN LTD.-MAT. GOVT.	Government—general	8.7
FIDELITY SPARTAN SHORT-INTERM. MUNI.	Municipal—national	7.0
FLAGSHIP LIMITED-TERM TAX-EXEMPT A	Municipal—national	8.5
FRANKLIN U.S. GOVERNMENT SECURITIES	Government—mortgage	10.3
HARBOR BOND	Corporate—general	12.5
INVESCO SELECT INCOME	Corporate—general	10.6
OPPENHEIMER CHAMPION HIGH-YIELD A	Corporate—high-yield	15.1
T. ROWE PRICE TAX-FREE HIGH-YIELD	Municipal—national	10.4
ROCHESTER FUND MUNICIPALS	Municipal—New York	10.9
SCUDDER MEDIUM-TERM TAX-FREE	Municipal—national	8.6
SCUDDER SHORT-TERM BOND	Corporate—high-quality	10.2
SIT TAX-FREE INCOME	Municipal—national	10.4
STRONG ADVANTAGE	Corporate—general	8.6
STRONG GOVERNMENT SECURITIES	Government—general	11.4
THORNBURG LIMITED-TERM MUNI. NATL.	Municipal—national	7.9
UNITED MUNICIPAL HIGH-INCOME	Municipal—national	10.6
USAA TAX-EXEMPT SHORT-TERM	Municipal—national	6.5
VANGUARD FIXED-INC. SHORT-TERM CORP.	Corporate—high-quality	9.6
VOYAGEUR MINNESOTA TAX-FREE	Municipal—single-state	9.5

*Pre-tax return: capital appreciation plus reinvestment of dividends and capital gains, 1989-93.

DATA: MORNINGSTAR INC.

MUTUAL FUND SCOREBOARD

HOW TO USE THE TABLES

BENEFIT WEEK RATING

These measures risk-adjusted performance. This shows how well a fund performed relative to other funds in the same category and relative to the level of risk it took. Risk-adjusted performance is determined by subtracting a fund's risk-of-loss factor (see below) from its historic return. Performance calculations are based on a 36-month time period between Jan. 1, 1989, and Dec. 31, 1993. For rating purposes, funds are divided into two groups: municipal bond funds and other funds. Ratings are based on a normal statistical distribution within each group and awarded as follows:

- ▲ Superior
- Very good
- Above-average
- Average
- Below-average
- Poor
- Very poor

Risk-of-loss factor is the potential for losing money on a fund, calculated as follows: The monthly average bill return is subtracted from the fund's total return for each of the 60 months in the rating period. When a fund has not performed as well as the average bill, the result is negative. The sum of these

negative numbers is then divided by the number of months in the period. The result is a negative number, and the greater its magnitude, the higher a shareholder's risk of loss.

PERFORMANCE COMPARISON

The tables provide performance data over three time periods. Here are equivalent total return figures for the Lehman Brothers Government/Corporate Bond and Municipal Bond indexes during those periods:

	GOVT./CORP.	MUNI.
1993	11.0%	12.3%
Three-year average (1991-93)	11.5%	11.1%
Five-year average (1989-93)	11.4%	10.3%

FUND CATEGORIES

The tables group funds in one of five categories, based on assets: Corporate, Government, Municipal, International, and Convertible.

SALES CHARGE

The cost of buying a fund, commonly called the "load." Most funds take loads out of initial investments, and for BW rating purposes performance is reduced by the amount of these charges. Loads on withdrawals can take two forms. Deferred charges decrease over time usually ending after shares have been owned several years. Redemption fees are imposed whenever investors sell their shares. Funds with none of these charges are called "no-load."

EXPENSE RATIO

Fund expenses for 1993 as a percentage of average

net assets. The measures show how much shareholders pay for fund management. Footnotes indicate 12(b)-1 plans, which allocate shareholder money for marketing costs. The average expense ratio is 1.03% for taxable funds, 0.75% for tax-free funds.

TOTAL RETURN

A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

YIELD

Income distributions during 1993 expressed as a percent of net asset value, adjusted for capital gains.

MATURITY

The average maturity of the securities in a fund's portfolio, weighted according to the market value of those securities.

TREND

A fund's relative performance during the five 12-month periods from Jan. 1, 1989, to Dec. 31, 1993. The boxes read from left to right, and the level of green in each box tells how the fund performed relative to other funds during the period: ■ for the top quartile; ■ for the second quartile; ■ for the third quartile; and □ for the bottom quartile. An empty box indicates that a fund is not rated for that time period.

TELEPHONE NUMBERS

The index on page 103 has telephone numbers for each fund or fund group.

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
						1 YR.	3 YRS.	5 YRS.			
CORPORATE											
HIGH-QUALITY BOND	AVG	622.2	51	No load	1.01	11.0	10.8	10.5	5.3	13.0	■ ■ ■ ■ ■
INTERMEDIATE HIGH-YIELD BOND		125.0	95	4.00 **	1.42†	18.9	30.5		8.2	14.1	■ ■ ■ ■ ■
HIGH-YIELD A		547.8	69	4.75	1.15†	18.4	25.9	12.9	9.7		■ ■ ■ ■ ■
INCOME A		243.0	11	4.75	0.96†	15.4	13.5	11.5	6.8	16.9	■ ■ ■ ■ ■
INCOME BOND CORPORATE BOND A (a)	▲	249.4	263	4.25	1.39†	31.1	20.6	15.9	7.4	13.8	■ ■ ■ ■ ■
INTERNATIONAL CAPITAL CORP. BOND A	AVG	184.6	-1	4.75	1.05†	11.7	12.3	9.5	7.0	17.8	■ ■ ■ ■ ■
INTERNATIONAL CAPITAL H/Y INVMT. A		444.8	11	4.75	1.09†	19.1	25.5	7.9	10.2	8.3	■ ■ ■ ■ ■
INTERNATIONAL HIGH-INCOME	AVG	788.9	73	4.75	0.87†	17.2	21.0	13.4	8.0	6.1	■ ■ ■ ■ ■
DOMESTIC BOND L	▲	160.4	11	No load	0.99	11.1	11.3	11.0	6.8	8.0	■ ■ ■ ■ ■
INTERNET FIXED-INCOME	AVG	123.1	-8	No load	1.00	6.9	9.3	9.3	4.6	5.6	■ ■ ■ ■ ■
STEIN INTERMEDIATE DURATION		727.8	34	No load	0.66	10.1	11.3		5.4	18.1	■ ■ ■ ■ ■
STEIN SHORT DURATION PLUS	▲ ▲ ▲	507.0	-6	No load	0.66	5.3	7.9	8.2	4.5	2.3	■ ■ ■ ■ ■
STANDARD FLEXIBLE INCOME		690.5	NM	No load	0.94†	13.9			8.0	5.7	■ ■ ■ ■ ■
FUND OF AMERICA	▲	5284.6	35	4.75	0.73†	14.2	15.4	11.8	7.3	9.4	■ ■ ■ ■ ■
NATIONAL HIGH-YIELD SECURITIES A		440.6	27	4.75	1.29†	19.7	27.8	12.2	9.3	8.6	■ ■ ■ ■ ■
NATIONAL INCOME A	AVG	155.4	4	4.75	1.15†	12.1	13.2	9.9	7.3	9.6	■ ■ ■ ■ ■
NATIONAL STRATEGIC INCOME A		660.3	51	4.75	1.19	15.0	17.4	10.6	8.4	8.2	■ ■ ■ ■ ■
NABIA FIXED-INCOME SECURITIES	▲	300.5	14	No load	0.65	10.5	11.7	11.5	6.0	6.9	■ ■ ■ ■ ■
WASS CAPITAL FIXED-INCOME		275.7	51	3.75	0.84	11.0	11.4		5.5	11.4	■ ■ ■ ■ ■
WASS CAPITAL SHORT/INTERMED.		270.0	59	3.75	0.81	6.9	8.6		5.1	4.2	■ ■ ■ ■ ■
WITTER HIGH-YIELD SECS.		556.1	22	5.50	0.67	31.5	39.8	7.2	10.8	7.8	■ ■ ■ ■ ■
WITTER INTERMEDIATE INCOME		260.4	30	5.00 **	1.64†	7.8	10.1		5.0		■ ■ ■ ■ ■
WVARE DELCHESTER		1006.8	25	4.75	1.04†	16.5	25.1	11.6	10.5	6.3	■ ■ ■ ■ ■

† redemption fee. ** Includes deferred sales charge. † 12(b)-1 plan in effect. ‡ Not currently accepting new accounts or deposits. NA = Not available. NM = Not meaningful. (a) Formerly Alliance Bond Fund Monthly (A)

DATA: MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND 5-Y ANA
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
DODGE & COX INCOME		180.0	32	No load	0.60	11.3	12.3		6.4	9.8	
DREYFUS A BONDS PLUS	AVG	633.6	21	No load	0.89	15.0	13.9	12.1	6.2	16.8	
DREYFUS SHORT-TERM INCOME		320.7	440	No load	0.00†	9.2			7.3	3.0	
DREYFUS STRATEGIC INCOME	AVG	383.9	131	3.00	0.84†	15.1	14.3	12.4	6.5	15.2	
EATON VANCE HIGH-INCOME		418.4	39	6.00**	2.09†	16.4	23.8	9.4	10.1	7.8	
FIDELITY ADVISOR HIGH-YIELD	▲ ▲ ▲	549.5	240	4.75	1.11†	19.9	25.8	17.2	7.3	8.6	
FIDELITY ADVISOR SHORT FIXED-INC.	▲ ▲ ▲	756.5	264	1.50	0.95†	9.5	10.1	9.3	6.9	2.6	
FIDELITY CAPITAL & INCOME	AVG	2745.7	64	1.50*	0.91	24.2	27.3	14.0	7.7	6.9	
FIDELITY INTERMEDIATE BOND	▲	1840.2	27	No load	0.61	12.0	10.8	10.3	6.7	9.0	
FIDELITY INVESTMENT GRADE BOND	▲ ▲ ▲	1042.4	0	No load	0.68	16.2	14.4	12.4	6.9	13.4	
FIDELITY SHORT-TERM BOND	▲ ▲ ▲	2469.5	49	No load	0.75	9.1	10.1	9.3	6.8	2.6	
FIDELITY SPARTAN HIGH-INCOME		664.6	53	1.00*	0.70	21.1	25.5		7.8	7.5	
FIDELITY SPARTAN S/T INCOME (b)		1506.1	1482	No load	0.20	9.0			7.0	2.8	
FIRST INVESTORS FUND FOR INCOME		428.6	4	6.25	1.33†	18.1	25.3	8.5	9.4	8.6	
FIRST INVESTORS HIGH-YIELD		190.4	0	6.25	1.68†	17.1	23.2	7.4	8.9	8.3	
FIRST UNION F/I TRUST (c)		377.2	17	No load	0.67	8.7			6.9	4.1	
FORTRESS BOND		142.9	114	2.00*	1.04	16.3	24.9	12.3	7.4	8.7	
FRANKLIN AGE HIGH-INCOME		2600.0	42	4.00	0.56	17.6	26.7	10.9	9.1	9.5	
GALAXY HIGH-QUALITY BOND RETAIL		161.9	48	No load	0.74	12.8	11.5		5.7	9.2	
GALAXY INTERMEDIATE BOND RETAIL		433.2	100	No load	0.81	5.5	9.4	9.1	5.8	9.9	
HANCOCK SOVEREIGN BOND A	▲	1505.8	9	4.50	1.41†	11.3	11.9	10.9	7.2	11.2	
HANCOCK STRATEGIC INCOME A (d)		339.4	54	4.50	1.58†	13.2	17.6	7.7	9.1	8.0	
HARBOR BOND	▲ ▲ ▲	171.8	124	No load	0.72	12.4	13.6	12.5	5.5	8.1	
IDS BOND	AVG	2483.0	13	5.00	0.70	15.4	15.5	12.3	7.3	14.2	
IDS EXTRA INCOME		1664.8	31	5.00	0.81	19.8	25.7	11.3	8.9	8.6	
IDS SELECTIVE	AVG	1726.8	11	5.00	0.73	13.1	13.0	11.5	6.4	7.3	
IDS STRATEGY INCOME		778.6	54	5.00**	1.60†	15.7	14.0	11.4	7.1	14.1	
IDS STRATEGY SHORT-TERM INCOME		177.7	1	5.00**	1.76†	5.0	5.9		4.6	4.4	
INTERMEDIATE BOND FUND OF AMERICA	AVG	1751.1	27	4.75	0.82†	9.1	9.9	9.5	6.8	4.6	
INVESCO HIGH-YIELD (e)		306.1	44	No load	0.97†	15.8	17.9	10.2	8.0	9.1	
INVESCO SELECT INCOME (f)	▲ ▲ ▲	157.5	28	No load	1.15†	11.4	13.4	10.6	7.3	10.4	
JANUS FLEXIBLE INCOME	▲	469.6	126	No load	1.00	15.7	17.7	10.1	7.5	11.4	
KEMPER DIVERSIFIED INCOME	▲	344.5	37	4.50	1.06	20.9	29.3	15.3	9.3	8.7	
KEMPER HIGH-YIELD	▲ ▲	2299.5	20	4.50	0.80	20.3	27.4	12.2	9.1	8.7	
KEMPER INCOME & CAPITAL PRESERVATION	AVG	562.0	12	4.50	0.82	11.7	12.4	10.4	6.6	11.1	
KEMPER INVMT. DIVERS. INC. INITIAL		307.9	31	4.00**	1.93†	19.9	28.3	13.8	7.8	8.6	
KEMPER INVMT. HIGH YIELD INITIAL		1134.7	27	4.00**	1.81†	19.2	26.4	10.4	8.3	8.4	
KEYSTONE CUSTODIAN B-1	AVG	437.9	-5	4.00**	2.00†	8.9	9.1	9.2	7.4	18.0	
KEYSTONE CUSTODIAN B-2		1004.2	12	4.00**	1.89†	13.8	14.0	8.3	7.8	12.2	
KEYSTONE CUSTODIAN B-4		1011.8	24	4.00**	2.06†	26.2	28.3	9.4	8.9	8.2	
LIBERTY HIGH-INCOME BOND		462.0	21	4.50	1.18	17.4	30.2	13.9	9.1	8.7	
LIMITED TERM (FUND)		244.1	291	1.00	0.91†	7.3			6.1	3.2	
LORD ABBETT BOND-DEBENTURE		969.7	32	4.75	0.84†	16.0	23.0	12.6	9.1	7.3	
MACKENZIE FIXED-INCOME		130.7	15	4.75	1.49†	15.4	12.4	11.1	5.7	12.2	
MAINSTAY HIGH-YIELD CORPORATE BOND		935.5	84	5.00**	1.70†	21.7	25.1	11.4	9.1	7.4	
MARSHALL INTERMEDIATE BOND		312.4	1	No load	0.70	6.3			5.7	4.2	
MERRILL LYNCH CORP. HIGH-INCOME B	AVG	2060.7	120	4.00**	1.31†	16.8	24.6	13.7	8.4	9.9	
MERRILL LYNCH CORP. INTERM.-TERM A	▲	187.0	17	2.00	0.58	11.7	11.0	10.8	6.0		
MERRILL LYNCH CORP. INVMT. GRADE B	AVG	505.5	38	4.00**	1.29†	11.6	10.9	10.3	5.5	9.2	
METLIFE-STATE ST. HIGH-INCOME A		627.5	46	4.50	1.13†	22.0	26.1	11.2	8.5	7.2	
MFS BOND A	▲	494.5	7	4.75	0.89†	13.9	12.6	11.6	8.1	12.5	
MFS HIGH-INCOME A		628.7	11	4.75	1.03†	19.4	27.7	11.2	8.3	8.9	
NATIONWIDE BOND	AVG	151.6	61	4.50	0.65	10.7	11.8	10.9	7.3	14.9	
NEUBERGER & BERMAN LTD. MATURITY	▲ ▲	347.6	28	No load	0.65	6.8	7.9	8.7	5.4	3.4	
NICHOLAS INCOME	AVG	158.3	33	No load	0.63	13.0	15.3	9.5	8.1	7.6	
NORTHEAST INVESTORS		548.6	37	No load	0.65	23.6	22.4	10.8	9.2	8.3	
OPPENHEIMER CHAMPION HIGH-YIELD A	▲ ▲ ▲	123.3	129	4.75	1.24†	21.4	22.7	15.1	9.4	9.0	
OPPENHEIMER HIGH-YIELD A	AVG	1150.4	22	4.75	0.97†	20.6	20.9	12.2	10.1		
OPPENHEIMER STRATEGIC INCOME A		3016.4	57	4.75	1.08†	19.5	15.7		8.8	4.8	
PACIFICA ASSET PRESERVATION		146.9	-8	No load	0.75†	4.5	6.1		4.3	1.0	

*Includes redemption fee. **Includes deferred sales charge. †12(b)1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful. (b) Formerly Fidelity Spartan Short Term. (c) Formerly Salem Fixed-Income Port. Trust Shares. (d) Formerly John Hancock S/T World Income. (e) Formerly Financial Bond High-Yield. (f) Formerly Financial Bond Select Income.

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA. MORNINGSTAR INC., CHICAGO

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
						1 YR.	3 YRS	5 YRS.			5-YEAR ANALYSIS
EWEBBER HIGH-INCOME A		438.8	56	4.00	0.96†	22.7	30.8	15.1	9.9	7.1	
EWEBBER INCOME A		147.6	11	4.00	1.18†	13.5			7.3	15.5	
EWEBBER INVMT. GRADE INC. A	▲ ▲	205.7	3	4.00	0.98†	13.4	13.5	11.8	7.0	15.3	
GON INTERMEDIATE-TERM BOND		341.3	17	4.50	0.75	9.2	10.3		6.2	7.0	
GON SHORT-TERM GOVERNMENT		170.0	32	4.50	0.79	5.6	7.4		5.2	2.5	
INIX HIGH-YIELD	+	714.3	455	4.75	1.10†	21.5	21.0	11.7	8.0	7.9	
INIX MULTI-SECTOR F/I A (g)		232.0	56	4.75	1.40†	15.2	18.3		8.5	6.3	
ICO BOND IMMDEX		255.0	35	No load	0.50	11.0	11.6		5.7	10.4	
ICO SHORT-TERM BOND MARKET (h)		137.3	3	No load	0.53	6.4	8.9		5.4	2.6	
WE PRICE HIGH-YIELD		1622.2	35	No load	0.87	21.8	22.3	9.9	8.7	7.9	
WE PRICE NEW INCOME	▲	1558.1	7	No load	0.84	9.1	9.8	10.1	5.3	8.4	
WE PRICE SHORT-TERM BOND	▲ ▲	681.0	25	No load	0.73	6.6	7.6	8.2	6.2	2.3	
ENTIAL HIGH-YIELD B	+	3743.6	30	5.00**	1.37†	16.8	21.8	10.0	9.4		
ENTIAL STRUCTURED MATURITY B		123.0	NM	3.00**	1.58†	6.2			5.1	2.9	
AM DIVERSIFIED INCOME A	▲	1196.8	191	4.75	1.21†	15.9	17.2	12.2	6.3	12.7	
AM HIGH YIELD A		3285.9	24	4.75	0.92†	18.5	25.4	12.4	10.4	8.6	
AM HIGH YIELD ADVANTAGE		759.7	54	4.75	1.14†	21.0	27.9	13.0	10.4	8.2	
AM INCOME A	▲	810.5	21	4.75	0.77†	11.9	13.3	11.2	7.7	9.7	
DER INCOME	▲	508.9	12	No load	0.93	12.7	12.2	11.5	6.0	12.0	
DER SHORT-TERM BOND	▲ ▲ ▲	3196.7	12	No load	0.75	8.2	9.3	10.2	6.5	3.0	
N SEAS YIELD PLUS		1234.7	379	No load	0.36†	2.7			3.1	3.5	
HA CORPORATE INCOME		502.4	95	4.50	1.24†	16.4	15.5		7.5	8.4	
H BARNEY SHEAR DIV. STR. INC. B (i)		2429.9	45	4.50**	1.59†	12.8	12.5		7.5	12.8	
H BARNEY SHEAR HIGH-INC. B (j)		500.7	55	4.50**	1.66†	19.0	24.3	9.9	8.7	9.2	
H BARNEY SHEAR INVMT. GR. BD. B (k)	AVG	470.2	9	4.50**	1.57†	18.0	16.1	13.3	6.2	27.1	
ROE INCOME	▲	161.8	37	No load	0.82	13.1	13.1	10.5	6.8	8.7	
ROE INTERMEDIATE BOND	▲	326.5	19	No load	0.67	9.2	10.6	10.3	6.5	5.0	
NG ADVANTAGE	▲ ▲ ▲	415.5	53	No load	0.90	8.1	9.0	8.6	6.0	0.9	
NG INCOME		123.4	20	No load	1.20	16.8	13.6	6.7	6.7	13.9	
NG SHORT-TERM BOND	▲ ▲	1531.6	102	No load	0.80	9.3	10.2	8.8	6.5	2.5	
ASON INCOME B		241.3	3	1.00*	2.00†	7.1	8.8	6.8	7.9	7.5	
BOND INCOME A (l)	▲	179.3	23	4.50	1.03†	12.0	12.4	11.3	5.9	7.0	
ISAMERICA SPECIAL HIGH-YIELD BOND		154.9	46	5.00**	2.25†	21.4	22.7	10.4	9.2	7.0	
ITIETH CENTURY LONG-TERM BOND		157.8	8	No load	0.98	10.2	11.0	10.6	5.8	9.1	
ED BOND		641.7	9	5.75	0.64†	13.2	13.1	10.8	6.0	12.8	
ED HIGH-INCOME	▲ ▲ ▲	1053.9	11	5.75	0.75	17.7	23.6	8.1	8.2	6.5	
ED HIGH-INCOME II	▲ ▲ ▲	393.5	14	5.75	0.80†	17.5	21.3	10.3	8.2	9.4	
KAMPEN HIGH-YIELD A	▲ ▲ ▲	260.6	15	4.65	1.20†	17.7	23.0	8.5	10.7	7.5	
GUARD BOND INDEX TOTAL BD. MKT. (m)	▲	1540.2	45	No load	0.18	9.7	10.6	10.8	6.1	9.0	
GUARD F/I HIGH-YIELD CORP.	▲	2529.8	25	1.00*	0.35	18.2	20.3	10.8	8.5	11.3	
GUARD F/I L/T CORPORATE BOND (n)	▲	3168.4	21	No load	0.31	14.5	15.0	13.2	6.6	18.0	
GUARD F/I S/T CORPORATE	▲ ▲ ▲	3482.9	29	No load	0.29	7.0	9.1	9.6	5.5	2.6	
AM BLAIR INCOME SHARES		204.6	49	No load	0.79	7.8	10.4		6.0	3.9	
EDWARD BOND RETAIL		484.2	53	4.50	0.73†	11.3			6.9	6.3	
EDWARD INTERMEDIATE BD. RETAIL		422.4	97	4.50	0.74†	8.4			5.4	4.3	
VERMONT											
GNMA & U.S. TREASURY	▲ ▲	6629.9	20	No load	0.70	6.0	8.9	9.6	6.7	6.8	
ANTAGE GOVERNMENT SECURITIES	▲ ▲	183.9	28	4.00**	1.32†	18.5	14.3	12.6	5.5	21.0	
LTD. MATURITY TREASURY RETAIL	▲ ▲ ▲	341.2	24	1.00	0.46†	4.4	6.8	7.8	3.7	1.5	
ANCE BOND U.S. GOVERNMENT B		780.5	102	3.00**	1.81†	9.0			7.0		
ANCE MORTGAGE SECS. INCOME B		1451.5	11	3.00**	1.71†	9.4			6.6	4.0	
ANCE MORTGAGE STRATEGY B		166.7		3.00**	2.54†	5.4			5.0		
RICAN CAPITAL GOVT. SECS. A	AVG	3419.6	-6	4.75	0.97†	8.2	10.2	10.9	7.3	7.0	
RICAN CAPITAL U.S. GOVT. INC. B		274.5	NM	4.00**	1.81†	5.7			7.1	10.4	
T MANAGEMENT ADJ. RATE MTG.		1419.9	15	No load	0.46†	4.7			4.2	0.5	
T MANAGEMENT INTERM. MTG.	▲	234.3	110	No load	0.37†	6.9	10.3	9.9	5.8		
T MANAGEMENT INTERM.-TERM LIQUIDITY	▲ ▲	237.5	35	No load	0.48†	5.8	8.1	8.9	5.4	1.9	
S U.S. GOVT. & MORTGAGE		309.5	48	3.00	0.77†	7.6	10.3		7.0		
D ADJUSTABLE RATE INCOME		204.3	NM	3.25	0.00†	4.4			4.1		

les redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. NM = Not meaningful. (g) Formerly National Multi-Sector Fixed-Income. (h) Formerly Portico Short-Term, Fixed-Income Fund. (i) Formerly Shearson Diversified Strategic Inc. B. (j) Formerly Shearson High-Income Fund B. (k) Formerly Shearson Investment Grade Bond B. (l) Formerly TNE Income. (m) Formerly Vanguard Bond Market. (n) Formerly Vanguard F/I Invmt Grade Corp. Bond

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
						1 YR	3 YRS	5 YRS			5-YR ANAL.
BENHAM ADJUSTABLE RATE GOVT. SECS.		1081.7	-29	No load	0.50	3.6			5.7	0.6	
BENHAM GNMA INCOME	▲ ▲ ▲	1257.0	25	No load	0.55	6.5	9.9	10.7	6.4	6.0	
BENHAM TARGET MATURITIES 2000	▲ ▲	286.8	54	No load	0.60	15.5	14.5	13.8	0.0	6.9	
BENHAM TREASURY NOTE	▲	388.9	8	No load	0.51	7.9	9.4	9.8	4.5	3.9	
BERNSTEIN GOVT. SHORT DURATION		190.1	-21	No load	0.68	4.5	7.0		3.2	2.2	
CARDINAL GOVERNMENT OBLIGATIONS	▲ ▲	196.6	9	4.50	0.76	4.4	7.8	9.3	8.2	8.0	
COLONIAL FEDERAL SECURITIES A	AVG	1642.2	-8	4.75	1.20†	12.1	11.1	10.7	7.2	12.5	
COLONIAL U.S. GOVERNMENT A	▲	1110.0	-9	4.75	1.10†	5.7	7.2	8.4	6.9	4.0	
COMMON SENSE GOVERNMENT	AVG	352.0	21	6.75	0.89	8.2	10.1	10.5	6.1	7.0	
COMPOSITE U.S. GOVERNMENT SECS.	▲	268.1	30	4.00	1.00†	8.1	9.6	10.3	6.2	10.0	
COMSTOCK PARTNERS STRATEGY O		517.0	-11	4.50‡	1.06†	21.3	10.5	11.5	8.8	18.8	
DEAN WITTER DIVERSIFIED INCOME		198.5	109	5.00**	1.48†	9.6			7.3		
DEAN WITTER FEDERAL SECURITIES	AVG	1076.0	-7	5.00**	1.50†	8.5	9.7	10.1	5.8	10.5	
DEAN WITTER S/I U.S. TREASURY		695.0	19	No load	0.80†	4.5			4.5		
DEAN WITTER U.S. GOVERNMENT	▲	12198.2	-2	5.00**	1.17†	6.5	7.9	8.6	6.2	5.0	
DELAWARE TREAS. RESERVES INTERM.	▲ ▲	1126.0	24	3.00	0.88†	5.3	7.9	8.4	6.9	2.0	
DELAWARE U.S. GOVERNMENT	AVG	240.6	14	4.75	1.26†	7.8	9.7	9.9	8.4	8.0	
DREYFUS 100% U.S. TREASURY INTERM.	▲	253.4	10	No load	0.60	11.1	11.1	11.0	7.0	6.9	
DREYFUS 100% U.S. TREASURY LONG	AVG	215.0	-10	No load	0.69	16.6	14.0	13.0	6.5		
DREYFUS 100% U.S. TREASURY SHORT	AVG	187.4	30	No load	0.05	7.1	9.0	9.2	8.1		
DREYFUS GNMA	▲ ▲	1792.8	-2	No load	0.94†	7.2	9.3	9.8	6.7	8.9	
DREYFUS SHORT-INTERM. GOVT.	▲ ▲ ▲	545.4	56	No load	0.39	7.3	9.2	9.8	6.9	2.7	
EV TRADITIONAL GOVT. OBLIGATIONS (o)	▲	502.9	44	4.75	1.37†	9.3	9.6	10.2	8.0	7.0	
FIDELITY GINNIE MAE	▲ ▲	887.4	-6	No load	0.80	6.2	8.8	10.2	5.5	6.6	
FIDELITY GOVERNMENT SECURITIES	▲ ▲	753.4	33	No load	0.69	12.3	12.0	11.6	6.2	17.8	
FIDELITY MORTGAGE SECURITIES	▲ ▲	374.8	-13	No load	0.76	6.8	8.3	9.8	5.9	7.1	
FIDELITY SPARTAN GINNIE MAE		579.4	-24	No load	0.31	6.4	8.9		5.5	6.5	
FIDELITY SPARTAN GOVT. INCOME	▲	376.0	-21	No load	0.65	7.3	9.8	10.7	5.4	13.1	
FIDELITY SPARTAN LTD.-MAT. GOVT.	▲ ▲ ▲	1356.6	-16	No load	0.65	6.4	8.0	8.7	5.6	4.9	
FIRST INVESTORS GOVERNMENT	AVG	287.1	-6	6.25	1.15†	4.0	8.2	9.2	6.3	8.3	
FLAG INVESTORS TOT. RET. U.S. TREAS. A		207.4	-15	4.50	0.77†	13.7	11.5	10.8	6.5	13.7	
FORTIS U.S. GOVERNMENT SECS.	AVG	642.0	9	4.50	0.74	8.3	9.2	10.1	7.5	6.1	
FORTRESS ADJ. RATE U.S. GOVT.		833.7	-29	1.00*	1.01†	3.5			4.4	4.4	
FRANKLIN ADJUSTABLE U.S. GOVT. SECS.	▲ ▲	1429.2	-54	2.25	0.38†	1.4	4.6	6.7	3.8	4.5	
FRANKLIN S/I U.S. GOVT. SECS.	▲	268.9	15	2.25	0.55	7.7	8.8	9.1	4.7	3.8	
FRANKLIN TAX-ADV. U.S. GOVT.	▲ ▲	568.3	82	4.00	0.59	8.5	10.0	10.7	6.7	6.0	
FRANKLIN U.S. GOVERNMENT SECS.	▲ ▲ ▲	13857.1	2	4.00	0.52	6.9	9.3	10.3	7.7	5.5	
FUND FOR U.S. GOVERNMENT SECS. A	▲	1832.8	8	4.50	0.87	4.9	7.8	9.3	7.9	4.9	
GOVERNMENT INCOME SECURITIES	▲ ▲	3691.7	7	2.00*	0.97	4.7	7.9	9.3	7.6	4.8	
GRADISON-MCDONALD GOVT. INCOME	▲	266.0	26	2.00	0.91†	7.5	9.2	9.8	5.3	5.3	
HANCOCK LIMITED-TERM GOVT. A (p)	AVG	262.9	1	3.00	1.50†	7.2	7.9	8.6	5.9	3.9	
HANCOCK SOVEREIGN U.S. GOVT. A		363.4	3	4.50	1.22†	9.4			6.3	12.4	
IDS FEDERAL INCOME	▲	1012.9	6	5.00	0.77	5.9	7.8	8.8	5.9	7.1	
INVESTORS TRUST U.S. GOVT. SEC. B (q)	▲	1388.0	61	5.00**	1.70†	7.9	9.1	9.9	7.2	6.5	
ISI TOTAL RETURN U.S. TREASURY		221.4	6	4.45	0.77†	13.6	11.4	10.8	7.0	13.7	
KEMPER ADJUSTABLE RATE U.S. GOVT.	AVG	232.0	15	3.50	0.21	4.9	8.1	8.6	5.0	4.5	
KEMPER INVEST. GOVERNMENT INITIAL		3397.7	-31	4.00**	1.75†	4.8	8.6	8.9	7.0	4.8	
KEMPER INVEST. S/I GOVT. INITIAL		281.0	20	4.00**	1.87†	4.7	7.0		5.5	3.1	
KEMPER U.S. GOVERNMENT SECS.	AVG	6490.0	-4	4.50	0.64	6.3	9.2	10.3	7.3	4.9	
KIDDER PEABODY ADJ. RATE GOVT. A		166.6	158	2.25	NA†	4.4			4.1	5.4	
LEGG MASON U.S. GOVT. INTERM.-TERM	▲	299.5	-3	No load	0.90†	6.6	9.0	9.9	4.9		
LIBERTY FINANCIAL U.S. GOVT.	▲ ▲	926.8	6	4.50	0.76†	5.8	8.6	9.5	7.3	4.5	
LORD ABBETT U.S. GOVERNMENT SECS.	AVG	3913.8	15	4.75	0.87†	9.0	10.9	11.0	7.9	7.8	
MAINSTAY GOVERNMENT (r)	▲	1230.8	17	5.00**	1.70†	5.9	7.6	8.4	7.7	12.3	
MERRILL LYNCH ADJ. RATE SECS. B		461.8	-51	3.00**	1.40†	2.8			3.2	1.0	
MERRILL LYNCH FEDERAL SECS. B		1946.0	-10	4.00**	1.30†	6.7			4.7	7.8	
MFS GOVERNMENT LTD. MATURITY A (s)	AVG	344.8	16	2.50	1.29†	7.0	7.3	7.5	5.6	3.7	
MFS GOVERNMENT MORTGAGE A (t)		510.1	-28	4.75	1.48†	6.5	8.6	8.5	6.7	8.7	
MFS GOVERNMENT SECURITIES A	AVG	388.6	15	4.75	0.68†	9.6	10.3	10.1	6.9	14.5	
MFS INTERMEDIATE-INCOME B (u)		465.7	31	5.00**	2.17†	9.3	7.7	7.6	5.5	6.5	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful. (o) Formerly Eaton Vance Government Obligations Fund. (p) Formerly John Hancock U.S. Government Secs. A. (q) Formerly GNA Investors Trust U.S. Govt. Sec. (r) Formerly MainStay Government Premium Fund. (s) Formerly MFS Government Premium Fund. (t) Formerly MFS Government Income Plus Fund. (u) Formerly MFS Lifetime Intermediate-Income Fund.

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO

MUTUAL FUND SCOREBOARD

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UNDS

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS	% CHG.	SALES	EXPENSE	TOTAL RETURN (%)			YIELD	MATURITY	
		\$ MIL.	1992-93	CHARGE (%)	RATIO (%)	1 YR.	3 YRS.	5 YRS.	(%)	(YEARS)	
ONS SHORT-INTERM. GOVT. INV. A		169.5	-11	2.50	0.66†	7.8			5.1	4.2	
TH AMERICAN U.S. GOVERNMENT (v)	AVG	176.0	25	4.00	0.64†	8.1	9.3	9.5	5.0	5.0	
ENHEIMER GOVT. SECURITIES	▲	177.6	15	4.75	1.02†	7.8	9.2	10.3	6.3	5.5	
ENHEIMER U.S. GOVERNMENT A	AVG	363.3	-9	4.75	1.17†	8.0	9.3	9.5	6.5	5.0	
RLAND EXPRESS VAR. RATE GOVT. A		1949.0	-24	3.00	0.86†	4.9	5.9		4.3	0.9	
FIC HORIZON U.S. GOVT. SECS.	▲ ▲	163.8	42	4.50	0.91†	6.9	9.8	10.5	6.0		
FICA GOVERNMENT INCOME		170.2	-8	4.50	0.79†	9.3	9.9		6.4	6.0	
EWEBBER U.S. GOVT. INCOME A	AVG	644.9	-9	4.00	0.92†	6.5	9.2	10.0	6.5		
ENIX U.S. GOVT SECURITIES	AVG	330.6	656	4.75	0.75†	7.9	10.0	10.0	6.2	5.0	
RIM ADJUSTABLE RATE SECS. I-A		194.2	142	4.00**	0.76†	6.4			6.8	1.8	
RIM ADJUSTABLE U.S. GOVT. I		627.6	-19	4.00**†	0.61†	3.2			6.0	1.5	
IER GNMA A	▲ ▲	196.7	20	4.50	0.78	8.2	10.0	10.6	6.1		
WE PRICE ADJ. RATE U.S. GOVT.		250.2	-55	No load	0.40	2.8			4.8	0.7	
WE PRICE GNMA	▲ ▲	916.6	6	No load	0.79	6.1	9.1	10.3	7.0	7.3	
WE PRICE U.S. INTERMEDIATE		170.8	13	No load	0.80	8.0	9.6		5.4	3.6	
COR GOVT. SECS. INCOME	AVG	255.4	44	5.00	0.89†	9.2	10.6	11.3	6.2	10.3	
DENTIAL GNMA B	AVG	319.4	-2	5.00**	1.57†	4.3	7.3	8.5	6.6	3.8	
DENTIAL GOVERNMENT INTERM.-TM	▲	345.8	15	No load	0.80†	7.2	8.8	9.2	7.2	3.4	
DENTIAL GOVERNMENT PLUS B	AVG	2324.7	-12	5.00**	1.69†	6.8	9.1	9.3	5.7	7.3	
IAM ADJ. RATE U.S. GOVT. A	AVG	181.8	-49	3.25	1.07†	0.4	3.8	5.9	4.8	0.7	
IAM AMERICAN GOVERNMENT INC		3212.6	-18	4.75	0.91†	6.0	7.1	8.4	8.0	7.9	
IAM FEDERAL INCOME		580.0	-11	4.75	1.05†	4.9	8.6	9.6	8.0	8.6	
IAM U.S. GOVERNMENT INCOME A	▲	4450.7	-2	4.75	0.88†	5.6	8.0	9.3	7.8	10.0	
ST FOR VALUE U.S. GOVT. INCOME	▲	180.3	18	4.75	1.15†	6.7	8.6	9.6	5.1	19.0	
ODER GNMA	▲	610.3	19	No load	0.87	6.0	9.2	10.1	7.7	8.0	
RA U.S. GOVERNMENT		849.2	20	4.50	0.91†	6.8	9.3		7.2	7.7	
H BARNEY SHEAR ADJ. RATE GOVT. A (w)		391.1	88	No load	1.50†	3.1			4.1	1.0	
H BARNEY SHEAR GOVT. SECS. B (x)	AVG	842.1	-19	4.50**	1.51†	10.5	10.6	10.7	6.6	13.5	
H BARNEY SHEAR MGD. GOVTS. B (y)		446.6	-7	4.50**	NA †	8.6			5.7		
H BARNEY U.S. GOVERNMENT A	AVG	468.4	2	4.00	0.50	6.4	9.6	10.6	7.9	5.3	
ETY U.S. GOVERNMENT INCOME (z)		194.3	161	2.00	0.77	8.2	9.8		5.6	12.5	
ECOACH GINNIE MAE		303.5	64	4.50	0.61†	7.1			7.2		
ECOACH U.S. GOVT. ALLOCATION	AVG	283.2	122	4.50	1.00†	17.4	13.0	11.4	5.5	25.5	
E ST RESEARCH GOVT. INC. A (aa)	AVG	837.9	3	4.50	1.05†	9.9	10.8	10.8	6.4	7.8	
ING GOVERNMENT SECURITIES	▲ ▲ ▲	222.0	170	No load	0.80	12.8	12.9	11.4	5.9	8.9	
AMERICA U.S. GOVT. SECS. B	▲ ▲	1144.0	-10	4.00**	1.82†	4.0	6.4	7.3	5.9	3.6	
MSON U.S. GOVERNMENT B		499.1	-6	1.00*	1.70†	7.1	8.4	8.8	5.7	6.8	
RNBURG LIMITED-TERM U.S. GOVT.	▲ ▲	209.7	41	2.50	1.01†	6.2	8.7	9.1	5.4	4.5	
ADJUSTABLE RATE U.S. GOVT. A (bb)		735.1	149	3.00	0.60†	4.0			4.1	2.5	
GOVERNMENT SECURITIES A (cc)		181.9	2	4.50	1.20†	8.9	10.1	9.7	6.1	8.0	
LIMITED-TERM U.S. GOVT. A (dd)		559.9	17	3.00	1.13†	6.4	8.6		5.9	4.2	
ASAMERICA GOVERNMENT SECS.		676.3	-7	4.75	1.44†	8.2	10.3	10.2	7.7	8.3	
ASAMERICA SPECIAL GOVT. INC.		288.4	22	5.00**	2.15†	7.6	9.0	9.0	7.0	5.8	
NTIETH CENTURY U.S. GOVT.	AVG	494.0	-8	No load	0.99	4.2	6.7	7.5	3.4	2.2	
GOVERNMENT SECURITIES	▲	1573.8	16	4.75	0.83†	10.4	10.7	10.7	7.1	8.6	
ED GOVERNMENT SECURITIES	AVG	189.7	13	4.25	0.72	10.1	11.4	10.5	5.7	17.3	
A INVESTMENT FEDERAL GNMA		277.2	19	No load	0.32	7.1			7.6		
JE LINE U.S. GOVERNMENT	▲ ▲	450.7	7	No load	0.60	9.8	10.8	10.9	7.2	5.2	
KAMPEN U.S. GOVERNMENT A	▲	3642.2	-1	4.65	0.83†	8.0	9.9	10.6	8.1	6.0	
GUARD F/I GNMA	▲ ▲	7073.2	2	No load	0.31	5.9	9.7	10.8	6.1	4.8	
GUARD F/I I/T U.S. TREASURY		984.9	63	No load	0.29	11.4			5.5	6.7	
GUARD F/I L/T U.S. TREASURY		823.4	-4	No load	0.29	16.8	13.8	12.9	6.2	23.5	
GUARD F/I S/T FEDERAL	▲ ▲	1921.8	18	No load	0.29	7.0	8.4	9.2	4.9	2.5	
GUARD F/I S/T U.S. TREASURY		705.5	46	No load	0.29	6.3			4.6	2.5	
GOVERNMENT SECURITIES	▲ ▲	334.9	27	No load	0.79	9.0	10.2	10.7	7.4	6.5	
MUNICIPAL											
FL TAX-FREE		214.9	18	4.75	0.58†	12.3	11.2	7.4	5.7	21.5	
MUNICIPAL BOND A		293.5	8	4.75	0.92†	11.5	11.3	9.7	5.4	18.5	
ANCE MUNI. INCOME CA A	▲ ▲	545.4	40	4.25	0.83†	12.9	11.1	10.2	5.5	26.0	

See redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. NM = Not meaningful. (v) Formerly North Amer. Security U.S. Govt. (w) Formerly Shearson Adjustable Rate Govt. Inc. A. (x) Formerly Shearson Govt. Secs. B. (y) Formerly Shearson Managed Govt. B. (z) Formerly Emblem Interm. Govt. Obligations. (aa) Formerly MetLife State St. Inc. Fund. (bb) Formerly TNE Adj. Rate U.S. Govt. (cc) Formerly TNE Premium Income Fund. (dd) Formerly TNE Premium Income Fund.

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TR 5 AN
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
						1 YR.	3 YRS.	5 YRS.			
ALLIANCE MUNI. INCOME NATIONAL A	▲ ▲	394.0	39	4.25	0.84†	13.3	11.9	10.6	5.5	22.0	
ALLIANCE MUNI. INCOME NY A	▲ ▲	218.4	28	4.25	0.64†	12.8	11.9	10.5	5.6	24.0	
AMERICAN CAPITAL MUNI. BOND A	AVG	335.6	11	4.75	0.91†	11.2	10.6	9.6	5.7	20.4	
AMERICAN CAPITAL T/E H/Y MUNI. A	▲ ▲ ▲	414.8	33	4.75 ‡	1.07†	10.2	9.9	9.2	6.6	21.0	
ATLAS CA MUNICIPAL BOND		196.6	39	3.00	0.63†	13.5	11.3		5.1	21.0	
BENHAM CA TAX-FREE INSURED		222.7	44	No load	0.52	13.4	11.3	10.2	4.9	18.5	
BENHAM CA TAX-FREE INTERM.-TERM	AVG	469.0	42	No load	0.50	10.7	9.2	8.5	4.8	8.1	
BENHAM CA TAX-FREE LONG-TERM		323.9	11	No load	0.49	13.7	11.2	10.0	5.4	20.1	
BERNSTEIN DIVERSIFIED MUNICIPAL		487.3	48	No load	0.69	8.3	8.3		4.5	10.9	
BERNSTEIN NY MUNICIPAL		364.8	46	No load	0.69	8.4	8.6		4.7	13.6	
CALIFORNIA INVEST. TAX-FREE INCOME		281.3	24	No load	0.60	14.8	11.9	10.4	5.0	21.7	
CALVERT T/F RESERVES LTD.-TERM	▲ ▲ ▲	653.8	15	2.00	0.68	4.0	5.2	5.8	3.5	1.1	
CHURCHILL TAX-FREE FUND OF KY	▲	258.5	34	4.00	0.56	11.7	10.0	9.9	5.5	13.8	
COLONIAL CA TAX-EXEMPT A	AVG	379.9	16	4.75	0.75	10.5	9.8	8.9	5.7	21.7	
COLONIAL MA TAX-EXEMPT A	AVG	223.7	22	4.75	0.62	11.8	11.5	9.8	5.7	20.5	
COLONIAL TAX-EXEMPT A	▲	3435.3	16	4.75	1.03†	10.7	10.2	9.0	5.9	23.2	
COLONIAL TAX-EXEMPT INSURED A	AVG	244.9	11	4.75	1.09†	11.0	10.0	9.1	5.2	21.8	
COLUMBIA MUNICIPAL BOND		430.4	26	No load	0.58	10.7	9.6	8.9	5.1	13.5	
COMPOSITE TAX-EXEMPT BOND		259.0	39	4.00	0.79†	12.6	11.0	9.5	4.9	13.4	
DEAN WITTER CA TAX-FREE INCOME		1181.1	20	5.00 **	1.28†	10.5	9.5	8.7	4.5	18.0	
DEAN WITTER NY TAX-FREE INCOME		243.4	17	5.00 **	1.23†	11.2	10.9	9.2	4.6	21.0	
DEAN WITTER TAX-EXEMPT SECS.	AVG	1576.6	20	4.00	0.48	10.6	10.8	9.8	5.5	18.0	
DELAWARE TAX-FREE PA	AVG	1040.2	18	4.75	0.86†	11.0	11.0	9.4	5.7	22.3	
DELAWARE TAX-FREE USA	AVG	770.4	9	4.75	0.89†	11.3	11.1	9.5	5.9	23.0	
DREYFUS CA INTERMEDIATE MUNI.		306.5	183	No load	0.00	14.4			5.2	8.5	
DREYFUS CA TAX-EXEMPT BOND	AVG	1840.1	3	No load	0.69	11.9	9.6	8.8	5.4	22.8	
DREYFUS FL INTERMEDIATE MUNI.		535.5	61	No load	0.00	12.8			5.0	9.0	
DREYFUS INSURED MUNICIPAL BOND		287.6	9	No load	0.93†	12.6	10.5	9.5	5.1	23.1	
DREYFUS INTERMEDIATE MUNI.	▲ ▲	1824.2	16	No load	0.71	11.6	10.5	9.4	5.2	9.8	
DREYFUS MA TAX-EXEMPT BOND	▲	192.2	12	No load	0.81	12.5	10.9	9.2	5.3	21.2	
DREYFUS MUNICIPAL BOND	▲ ▲	4559.9	5	No load	0.69	12.7	11.0	9.8	5.6	21.9	
DREYFUS NJ INTERMEDIATE MUNI.		241.3	219	No load	0.00	12.5			4.9	9.3	
DREYFUS NJ MUNICIPAL BOND	▲	723.1	18	No load	0.73†	13.0	11.2	10.1	5.6	23.3	
DREYFUS NY INSURED T/E BOND		197.5	10	No load	0.95†	11.1	10.9	9.4	4.9	25.2	
DREYFUS NY TAX-EXEMPT BOND	▲	2129.2	6	No load	0.70	12.6	11.3	9.6	5.4	21.3	
DREYFUS NY T/E INTERM. BD.	▲	419.0	79	No load	0.85†	11.5	10.7	9.5	4.8	9.6	
DREYFUS S/I MUNICIPAL BOND (ee)	▲ ▲ ▲	573.9	68	No load	0.73†	6.7	7.2	7.0	4.4	2.8	
DUPREE KY TAX-FREE INCOME	▲ ▲ ▲	271.2	39	No load	0.76	12.2	10.6	10.0	5.4	18.4	
EATON VANCE CA MUNICIPALS		493.0	21	6.00 **	1.74†	11.5	9.0	8.2	5.7	23.0	
EATON VANCE FL TAX-FREE		792.7		6.00 **	1.53†	12.9	11.4		5.3	25.4	
EATON VANCE MA TAX-FREE		291.5		6.00 **	1.58†	12.1			5.5	23.7	
EATON VANCE MI TAX-FREE		192.1		6.00 **	1.54†	12.1			5.2	22.3	
EATON VANCE NATIONAL MUNICIPALS		2211.9	41	6.00 **	1.67†	14.6	12.1	9.6	6.1	26.9	
EATON VANCE NJ TAX-FREE		404.9		6.00 **	1.56†	12.6			5.4	24.3	
EATON VANCE NY TAX-FREE		661.3		6.00 **	1.55†	13.5	12.4		5.4	22.8	
EATON VANCE OH TAX-FREE		306.2		6.00 **	1.58†	12.9			5.2	20.1	
EATON VANCE PA TAX-FREE		513.0		6.00 **	1.56†	12.5			5.5	22.6	
EMERALD FL TAX-EXEMPT		210.8	78	4.50	0.52†	14.1			5.0	19.1	
FIDELITY ADVISOR HIGH-INC. MUNI.	▲ ▲ ▲	538.6	171	4.75	0.92†	13.9	12.4	12.1	5.4	21.3	
FIDELITY AGGRESSIVE TAX-FREE	▲ ▲ ▲	948.1	25	1.00 *	0.65	13.8	11.6	10.3	6.2	20.9	
FIDELITY CA TAX-FREE HIGH-YIELD	▲	591.6	8	No load	0.57	13.4	10.8	9.8	5.6	21.0	
FIDELITY CA TAX-FREE INSURED	AVG	311.1	37	No load	0.38	13.9	11.3	9.9	5.2	20.3	
FIDELITY HIGH-YIELD TAX-FREE	▲ ▲	2108.6	2	No load	0.56	13.3	10.6	10.3	5.7	19.5	
FIDELITY INSURED TAX-FREE	AVG	446.7	21	No load	0.62	13.9	11.1	10.0	5.2	20.5	
FIDELITY LIMITED-TERM MUNICIPALS	▲ ▲	1195.2	24	No load	0.60	12.2	10.5	9.3	5.0	9.9	
FIDELITY MA TAX-FREE HIGH-YIELD	▲ ▲	1375.4	12	No load	0.55	13.0	11.2	10.0	5.8	20.1	
FIDELITY MI TAX-FREE HIGH-YIELD	▲ ▲	561.5	22	No load	0.60	13.9	11.8	10.1	5.5	20.0	
FIDELITY MN TAX-FREE	▲	341.2	23	No load	0.63	12.4	9.5	9.0	5.5	21.7	
FIDELITY MUNICIPAL BOND	▲	1258.1	6	No load	0.49	13.3	11.4	10.1	5.4	21.5	
FIDELITY NY TAX-FREE HIGH-YIELD	▲	484.1	11	No load	0.60	12.9	11.8	9.9	5.3	20.9	

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits NA=Not available NM=Not meaningful (ee) Formerly Dreyfus Short Intermediate Bond

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO

NO
UNDS

MUTUAL FUND SCOREBOARD

UND	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	5-YEAR ANALYSIS
						1 YR	3 YRS	5 YRS			
ITY NY TAX-FREE INSURED	AVG	409.7	16	No load	0.59	12.8	11.3	9.8	5.1	19.9	
ITY OH TAX-FREE HIGH-YIELD	▲	456.5	19	No load	0.59	12.6	10.9	10.0	5.5	18.1	
ITY SPARTAN CA MUNI. H/Y		596.8	16	0.50 *	0.48	14.0	11.4		5.4	22.3	
ITY SPARTAN CT MUNI. H/Y	AVG	448.9	7	0.50 *	0.55	13.1	10.6	9.8	5.6	20.6	
ITY SPARTAN FL MUNI. INCOME		450.5	61	0.50 *	0.25	15.1			5.3	19.6	
ITY SPARTAN MUNI. INCOME		862.2	5	0.50 *	0.36	14.4	11.8		5.6	20.9	
ITY SPARTAN NJ MUNI. H/Y	▲	429.2	24	0.50 *	0.55	13.2	11.4	10.3	5.3	19.2	
ITY SPARTAN NY MUNI. H/Y		443.8	28	0.50 *	0.54	13.5	12.4		5.4	22.6	
ITY SPARTAN PA MUNI. H/Y	▲ ▲	305.0	26	0.50 *	0.55	13.2	11.6	10.3	5.9	19.6	
ITY SPARTAN S/I MUNI.	▲ ▲ ▲	1188.2	81	No load	0.55	7.3	7.5	7.0	4.5	3.8	
INVESTORS INSURED T/E	AVG	1484.0	10	6.25	1.16†	9.9	9.4	8.7	5.6	21.0	
INVESTORS NY INS. T/F		209.7	16	6.25	1.27†	9.8	9.9	8.9	5.3	19.0	
SHIP CT DOUBLE TAX-EXEMPT A		209.8	27	4.20	0.66†	12.3	10.9	9.5	5.5	18.9	
SHIP FL DOUBLE TAX-EXEMPT A		428.0	25	4.20	0.45†	13.3	11.8		5.5	20.5	
SHIP KY TRIPLE TAX-EXEMPT A		376.4	48	4.20	0.61†	12.3	11.4	10.3	5.6	18.6	
SHIP LIMITED-TERM T/E A	▲ ▲ ▲	691.6	66	2.50	0.70†	9.1	9.3	8.5	4.8	5.0	
SHIP MI TRIPLE TAX-EXEMPT A		254.2	24	4.20	0.81†	12.0	11.1	9.7	5.5	16.7	
SHIP NC TRIPLE TAX-EXEMPT A		202.0	32	4.20	0.95†	11.3	10.6	9.5	5.4	17.5	
SHIP OH DOUBLE TAX-EXEMPT A		463.1	26	4.20	0.96†	11.6	10.6	9.5	5.4	17.7	
SHIP TN DOUBLE TAX-EXEMPT A		236.2	48	4.20	0.88†	11.8	10.8	9.6	5.4	18.7	
RESS MUNICIPAL INCOME	▲ ▲	504.5	82	2.00 *	1.09†	11.1	10.0	9.4	5.4	25.5	
IKLIN AZ TAX-FREE INCOME	AVG	803.9	20	4.00	0.54	11.2	11.1	9.7	5.6	16.0	
IKLIN CA INS. T/F INCOME	AVG	1542.8	38	4.00	0.53	13.0	10.8	9.7	5.4	21.0	
IKLIN CA TAX-FREE INCOME	AVG	14112.0	7	4.00	0.49	9.5	9.9	9.0	6.1	20.0	
IKLIN CO TAX-FREE INCOME	▲	199.9	38	4.00	0.64	12.8	11.6	10.1	5.6	17.0	
IKLIN FEDERAL TAX-FREE INCOME	▲	706.4	18	4.00	0.50	11.3	11.3	9.7	6.3	19.0	
IKLIN FL TAX-FREE INCOME	AVG	1380.2	25	4.00	0.52	12.0	11.1	9.8	5.8	19.0	
IKLIN HIGH-YIELD T/F INCOME	▲ ▲	3327.3	30	4.00	0.52	13.3	11.6	9.9	6.8	20.0	
IKLIN INSURED TAX-FREE INCOME	▲	1807.3	26	4.00	0.52	11.8	10.8	9.8	5.6	18.0	
IKLIN MA INSURED T/F INCOME	AVG	313.0	20	4.00	0.62	11.8	10.7	9.2	5.6	19.0	
IKLIN MI INSURED T/F INCOME	AVG	1060.3	29	4.00	0.55	12.1	10.8	9.6	5.5	17.0	
IKLIN MN INSURED T/F INCOME	AVG	499.9	19	4.00	0.60	11.0	10.1	9.1	5.5	17.0	
IKLIN MO TAX-FREE INCOME	▲	224.1	50	4.00	0.64	13.3	11.4	10.1	5.5	19.0	
IKLIN NC TAX-FREE INCOME	▲	211.9	49	4.00	0.64	11.7	10.7	9.7	5.5	19.0	
IKLIN NJ TAX-FREE INCOME	AVG	553.0	39	4.00	0.56	11.0	10.8	9.7	5.7	20.0	
IKLIN NY INSURED T/F INCOME		262.7	76	4.00	0.50	14.0			5.1	22.0	
IKLIN NY TAX-FREE INCOME	▲ ▲	4779.5	21	4.00	0.52	11.9	12.2	10.1	6.2	18.0	
IKLIN OH INSURED T/F INCOME	▲	685.3	31	4.00	0.56	12.5	10.7	9.6	5.5	18.0	
IKLIN OR TAX-FREE INCOME	AVG	375.8	35	4.00	0.58	10.9	10.7	9.4	5.5	20.0	
IKLIN PA TAX-FREE INCOME	▲	613.7	30	4.00	0.56	11.7	11.6	9.7	5.8	19.0	
IKLIN VA TAX-FREE INCOME	▲	256.7	31	4.00	0.62	12.4	11.2	9.9	5.6	18.0	
IRAL CA MUNICIPAL BOND		431.5	10	No load	0.64	13.7	11.1		5.5	23.1	
IRAL MUNICIPAL BOND	▲ ▲	1252.0	14	No load	0.80†	13.3	12.6	11.4	5.6	22.9	
IRAL NY MUNICIPAL BOND	▲	400.3	22	No load	0.69†	14.2	12.8	10.3	5.3	20.7	
COCK MANAGED T/E B (ff)		257.4	8	4.00 **	1.23†	11.6	10.5	9.5	5.2	23.6	
COCK TAX-EXEMPT INCOME		541.3	12	4.50	1.26†	11.5	10.7	9.4	4.9	23.8	
AIIAN TAX-FREE	AVG	665.3	18	4.00	0.74†	10.2	9.5	8.9	5.4	14.6	
A TAX-EXEMPT		280.9	18	5.00	0.63	11.4	10.2	9.3	5.5	22.4	
HIGH-YIELD TAX-EXEMPT	AVG	6845.7	12	5.00	0.61	9.7	10.1	9.4	6.2	21.2	
NSURED TAX-EXEMPT		553.6	46	5.00	0.65	13.5	11.4	10.1	5.1	23.5	
IN TAX-EXEMPT	AVG	438.7	25	5.00	0.67	11.4	10.2	9.4	5.5	21.9	
AX-EXEMPT BOND		1311.0	4	5.00	0.64	13.1	10.0	9.6	5.3	20.9	
RMEDIATE MUNICIPAL INST.	AVG	327.6	61	No load	0.48	9.7	9.2	8.6	4.8	7.1	
SCO TAX-FREE LONG-TERM BOND (gg)		337.4	15	No load	1.03†	12.1	11.1	10.4	5.0	24.3	
PER MUNICIPAL BOND		4114.9	24	4.50	0.47	13.2	11.5	10.5	6.4	19.7	
PER STATE T/F INCOME CA		1321.7	9	4.50	0.63	13.4	11.0	10.2	6.0	20.5	
PER STATE T/F INCOME NY	AVG	375.6	25	4.50	0.67	13.0	11.9	10.7	5.3	20.1	
TONE TAX-EXEMPT		832.8	12	4.00 **	1.81†	10.4	9.6	8.6	5.2	20.8	
TONE TAX-FREE	AVG	1543.7	7	4.00 **†	1.67†	11.2	9.8	9.0	5.3	20.9	
ITY FINANCIAL TAX-FREE BOND		274.0	49	4.50	0.55†	11.1	10.4		4.8	16.7	

es redemption fee **Includes deferred sales charge †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. NA = Not available NM = Not meaningful (ff) Formerly Hancock John Freedom Mgd (gg) Formerly Financial Tax-Free Income Shares

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD [%]	MATURITY (YEARS)	
						1 YR.	3 YRS.	5 YRS.			
LIBERTY MUNICIPAL SECURITIES A	AVG	788.0	13	4.50	0.83	10.3	10.4	9.5	5.5	25.6	
LORD ABBETT CA TAX-FREE INCOME	AVG	367.0	46	4.75	0.68†	13.8	12.0	10.6	5.3	23.4	
LORD ABBETT TAX-FREE INCOME FL		197.6	47	4.75	0.29†	13.2			5.4	26.6	
LORD ABBETT TAX-FREE INCOME NATL.	AVG	715.9	25	4.75	0.87	12.9	11.4	10.2	5.4	23.6	
LORD ABBETT TAX-FREE INCOME NJ		190.3	48	4.75	0.35	14.2	12.3		5.4	26.9	
LORD ABBETT TAX-FREE INCOME NY	AVG	382.8	19	4.75	0.85	12.6	11.7	10.1	5.4	24.4	
MAINSTAY TAX-FREE BOND		525.6	56	5.00**	1.20†	10.4	9.9	8.3	5.7	21.3	
MERRILL LYNCH CA MUNI. BOND B		808.1	10	4.00**	1.13†	12.2	10.2	9.1	5.0	22.0	
MERRILL LYNCH FL MUNI. BOND B		233.8	39	4.00**	1.16†	12.1			4.5	23.8	
MERRILL LYNCH MUNI. INSURED A		2194.0	5	4.00	0.42	13.1	11.4	10.2	5.6	23.0	
MERRILL LYNCH MUNI. LIMITED A	▲ ▲	885.0	25	0.75	0.41	4.4	5.8	6.1	3.9	5.8	
MERRILL LYNCH MUNI. NATIONAL A		1355.0	7	4.00	0.55	12.7	11.4	9.8	5.8	22.0	
MERRILL LYNCH NJ MUNI. BOND B		190.0	40	4.00**	1.21†	11.3	9.9		4.7	20.0	
MERRILL LYNCH NY MUNI. BOND B		727.4	16	4.00**	1.14†	11.4	11.3	9.4	5.0	20.0	
METLIFE-STATE ST TAX-EXEMPT A		303.0	49	4.50	1.20†	12.1	11.1	9.5	4.6	20.2	
MFS AR MUNICIPAL BOND A (hh)		198.4	70	4.75	0.54†	11.9			4.5	20.8	
MFS CA MUNICIPAL BOND A		349.1	45	4.75	0.61†	12.9	11.1	9.9	5.0	18.0	
MFS MA MUNICIPAL BOND A	AVG	297.9	12	4.75	1.20†	11.2	10.5	9.2	5.3	19.6	
MFS MUNICIPAL BOND A		2199.6	12	4.75	0.59	14.2	12.1	11.0	5.8	18.0	
MFS MUNICIPAL HIGH-INCOME A (ii)	▲ ▲	801.8	11	4.75‡	1.14	9.7	9.4	8.4	7.5	20.4	
MFS MUNICIPAL INCOME B (ij)	AVG	525.3	15	5.00**	2.11†	10.5	9.9	8.5	4.4	22.1	
MFS NC MUNICIPAL BOND A		487.2	26	4.75	1.20†	10.3	9.4	8.7	4.8	18.7	
MFS VA MUNICIPAL BOND A		469.2	21	4.75	1.19†	10.5	9.6	9.0	5.0	19.0	
NATIONWIDE TAX-FREE INCOME	AVG	259.9	41	5.00**	0.98†	12.7	11.0	9.8	4.8	22.3	
NEW YORK MUNI.		274.3	40	No load	1.69†	12.4	13.3	9.6	4.9	22.2	
NUVEEN CA INSURED TAX-FREE VALUE		208.5	38	4.75	0.73	12.3	11.0	10.0	5.0	24.7	
NUVEEN CA TAX-FREE VALUE	AVG	218.9	29	4.75	0.73	11.4	10.6	9.9	5.4	23.8	
NUVEEN INSURED MUNICIPAL BOND		742.2	49	4.75	0.68	13.5	12.0	10.4	5.0	23.5	
NUVEEN MUNICIPAL BOND	▲	2683.0	21	4.75	0.66	8.6	9.3	8.9	5.4	19.7	
NUVEEN NY INSURED TAX-FREE VALUE		392.7	39	4.75	0.69	13.1	12.1	10.2	4.9	22.9	
OPPENHEIMER CA TAX-EXEMPT		266.5	30	4.75	1.00†	13.5	10.9	10.1	6.1	23.3	
OPPENHEIMER NY TAX-EXEMPT A	AVG	773.4	33	4.75	0.91†	13.6	11.8	10.0	6.0	20.8	
OPPENHEIMER TAX-FREE BOND	AVG	608.1	22	4.75	0.94†	13.5	11.7	10.1	5.9	22.3	
OVERLAND EXPRESS CA T/F BOND A		361.8	-4	4.50	0.75†	12.9	11.2	10.1	5.4	17.8	
PACIFIC HORIZON CA T/E BOND		248.1	46	4.50	0.85†	12.4	10.7	9.5	5.3	19.6	
PACIFICA CA TAX-FREE		228.4	18	4.50	0.84†	12.0	10.3		4.8	14.7	
PAINWEBBER CA TAX-FREE INCOME A		236.5	-1	4.00	0.99	11.9	10.1	9.2	5.4	24.9	
PAINWEBBER NATIONAL T/F INC. A		439.7	10	4.00	0.88	12.3	10.5	9.4	5.2	25.3	
PARAGON LA TAX-FREE		197.9	42	4.50	0.62	10.3	9.4		4.8	10.3	
PIERPONT TAX-EXEMPT BOND	AVG	493.0		No load	0.74	8.6	8.7	8.3	4.2	9.4	
PIONEER TAX-FREE INCOME (kk)		532.5	14	4.50	0.87†	13.0	11.4	10.3	5.1	19.4	
PREMIER CA MUNICIPAL BOND A	AVG	243.9	9	4.50	0.78	13.6	10.9	10.2	5.5	22.7	
PREMIER MUNICIPAL BOND A	▲	600.0	29	4.50	0.81	14.4	12.7	11.1	5.9	24.6	
PREMIER STATE MUNI. BOND CT A	AVG	392.9	18	4.50	0.78	12.6	10.8	9.8	5.3	23.0	
PREMIER STATE MUNI. BOND FL A	▲	320.2	17	4.50	0.76	11.9	11.1	10.5	5.5	22.5	
PREMIER STATE MUNI. BOND MD A	AVG	366.3	20	4.50	0.76	11.4	10.5	9.9	5.4	22.5	
PREMIER STATE MUNI. BOND MI A	AVG	201.5	19	4.50	0.78	14.1	12.1	10.6	5.4	21.2	
PREMIER STATE MUNI. BOND OH A	▲ ▲	316.1	15	4.50	0.79	12.3	11.3	10.4	5.4	20.8	
PREMIER STATE MUNI. BOND PA A	▲ ▲	248.6	27	4.50	0.76	12.7	11.6	10.8	5.5	21.0	
T. ROWE PRICE MD TAX-FREE BOND	AVG	822.7	26	No load	0.60	12.7	10.8	9.6	5.2	16.1	
T. ROWE PRICE T/F HIGH-YIELD	▲ ▲ ▲	953.5	25	No load	0.81	13.0	11.4	10.4	5.8	21.3	
T. ROWE PRICE T/F INCOME		1500.0	11	No load	0.61	12.8	11.4	9.8	5.3	18.9	
T. ROWE PRICE T/F SHORT-INTERM.	▲ ▲	534.4	26	No load	0.63	6.3	6.7	6.6	4.2	3.2	
PRUDENTIAL CA MUNI. CA SERIES B		212.2	15	5.00**	1.17†	11.6	10.2	8.9	5.1	22.7	
PRUDENTIAL MUNI HIGH-YIELD B	▲	1182.0	30	5.00**	1.14†	10.9	10.4	9.2	6.0	21.7	
PRUDENTIAL MUNICIPAL INSURED B		832.3	16	5.00**	1.12†	11.4	10.3	9.3	4.6	20.4	
PRUDENTIAL MUNICIPAL NJ B		361.1	20	5.00**	1.01†	12.1	11.1	10.0	4.8	18.0	
PRUDENTIAL MUNICIPAL NY B		366.6	14	5.00**	1.14†	12.6	11.9	9.5	5.0	21.0	
PRUDENTIAL MUNICIPAL PA B		276.3	26	5.00**	1.18†	12.1	11.2	9.4	5.0	21.7	
PRUDENTIAL NATIONAL MUNICIPALS B		848.9	2	5.00**	1.15†	12.2	11.0	9.3	4.9	20.1	

*Includes redemption fee. **Includes deferred sales charge. †12(b) 1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful. (hh) Formerly MFS Arkansas Muni Bond. (ii) Formerly MFS High-Yield Municipal Bond Fund. (ij) Formerly MFS Lifetime Muni Bond Fund. (kk) Formerly Mutual of Omaha Tax-Free Income.

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1992-93	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
						1 YR	3 YRS	5 YRS			5-YEAR ANALYSIS
AM CA TAX-EXEMPT INCOME A		3641.6	23	4.75	0.60†	13.0	11.0	9.9	5.9	23.1	
AM FL TAX-EXEMPT INCOME A		309.6	30	4.75	0.77†	11.2	11.0		5.4	23.0	
AM MA TAX-EXEMPT INCOME A (ll)		258.6	40	4.75	0.97†	12.3	12.2		5.7	22.8	
AM MUNICIPAL INCOME A		882.4	82	4.75	1.00†	12.0	11.9		5.8	22.1	
AM NJ TAX-EXEMPT INCOME A		260.0	41	4.75	0.92†	12.5	10.8		5.5	22.1	
AM NY TAX-EXEMPT INCOME A		2318.7	18	4.75	0.66†	13.2	12.7	10.2	5.4	21.9	
AM OH TAX-EXEMPT INCOME A (mm)		199.3	26	4.75	1.04†	11.1	10.6		5.6	21.3	
AM TAX-EXEMPT INCOME A		2458.1	27	4.75	0.74†	13.4	12.2	10.4	5.6	23.2	
AM TAX-FREE HIGH YIELD B	▲ ▲	1488.8	29	5.00**	1.38†	12.5	11.6	9.4	5.9	23.2	
AM TAX-FREE INSURED B		456.7	-8	5.00**	1.74†	11.2	9.8	8.9	4.6	23.2	
ESTER FUND MUNICIPALS	▲ ▲ ▲	1793.4	80	4.00	0.66†	14.6	12.9	10.9	6.1	10.6	
ESTER LIMITED-TERM NY MUNI.		456.4	204	2.00	0.93†	10.1			4.9	10.0	
GO MUNICIPAL BOND		572.9	12	No load	0.53	12.8	11.8	10.4	5.4	22.8	
DER CA TAX-FREE		352.7	25	No load	0.78	13.8	11.9	10.5	4.7	14.1	
DER HIGH-YIELD TAX-FREE	■	315.9	56	No load	0.98	13.8	12.7	10.9	5.2	20.5	
DER MA TAX-FREE	▲	375.6	72	No load	0.25	14.3	12.4	10.7	5.7	17.1	
DER MANAGED MUNICIPAL BONDS		908.7	10	No load	0.64	13.3	11.5	10.5	5.0	14.8	
DER MEDIUM-TERM TAX-FREE	▲ ▲ ▲	1012.0	56	No load	0.50	10.9	10.7	8.8	5.2	9.6	
DER NY TAX-FREE		229.1	24	No load	0.82	12.9	12.5	10.3	4.6	14.1	
A CA MUNICIPAL		582.7	52	4.50	0.80†	13.7	10.8		5.3	24.6	
A NATIONAL MUNICIPAL		409.3	35	4.50	0.86†	15.0	13.4		5.4	20.7	
IX-FREE INCOME (nn)	▲ ▲ ▲	340.8	22	No load	0.80	10.4	9.1	8.6	5.7	14.6	
1 BARNEY MUNI. NATIONAL A	AVG	443.1	31	4.00	0.53	13.4	11.8	10.4	6.0	22.7	
1 BARNEY SHEAR CA MUNI. A (oo)		423.3	6	4.50	0.79†	12.8	10.7	9.7	5.7	19.1	
1 BARNEY SHEAR MGD. MUNI. A (pp)		1791.3	7	4.50	0.73	16.0	13.2	10.9	5.7	23.4	
1 BARNEY SHEAR NY MUNI. A (qq)	▲	569.2	7	4.50	0.79†	10.8	11.0	9.5	5.8	23.2	
1 BARNEY SHEARSON T/E INC. B (rr)	▲	1162.5	21	4.50**	1.38†	11.8	10.6	9.1	5.5	22.4	
ECOACH CA TAX-FREE BOND		532.8	120	4.50	0.64†	13.8			4.9	20.5	
ROE HIGH-YIELD MUNICIPALS	▲	348.6	-5	No load	0.73	10.5	8.5	8.9	5.7	19.5	
ROE INTERMEDIATE MUNICIPALS	▲	258.5	28	No load	0.72	10.9	9.7	9.0	4.5	8.1	
ROE MANAGED MUNICIPALS	AVG	781.4	5	No load	0.64	11.1	10.4	9.8	5.3	16.3	
NG MUNICIPAL BOND	▲	398.9	38	No load	0.60	11.8	12.5	9.8	5.5	19.7	
NG SHORT-TERM MUNICIPAL BOND		216.2	95	No load	0.50	6.8			4.2	2.8	
EXEMPT BOND FUND OF AMERICA		1404.5	37	4.75	0.71†	11.7	10.6	9.5	5.5	15.6	
EXEMPT FUND OF CA		232.0	38	4.75	0.71†	12.9	10.4	9.3	5.4	15.2	
FREE FUND OF CO	▲ ▲	222.3	28	4.00	0.53	11.1	10.4	9.2	5.1	12.0	
FREE TRUST OF AZ	▲	387.7	40	4.00	0.65	11.0	10.7	9.7	5.3	14.8	
FREE TRUST OF OR	AVG	338.9	29	4.00	0.66	10.1	9.6	9.0	5.2	16.6	
INBURG LIMITED-TERM MUNI. NATL.	▲ ▲ ▲	911.6	27	2.50	1.01†	8.8	8.4	7.9	4.6	4.9	
AX-EXEMPT INCOME A (ss)		226.8	24	4.50	0.92†	12.6	11.0	9.7	4.8	11.0	
ISAMERICA CA TAX-FREE INC. A		279.2	29	4.75	0.31†	13.6	11.7		5.5	25.6	
ED MUNICIPAL BOND		1065.9	17	4.25	0.56†	14.3	12.4	10.8	5.0	19.4	
ED MUNICIPAL HIGH-INCOME	▲ ▲ ▲	337.2	25	4.25	0.70†	13.2	11.7	10.6	6.3	21.9	
A TAX-EXEMPT CA BOND		427.5	21	No load	0.44	12.8	10.6		5.3	24.5	
A TAX-EXEMPT INTERM.-TERM	▲ ▲	1660.9	38	No load	0.41	11.5	10.4	9.4	5.2	9.2	
A TAX-EXEMPT LONG-TERM	▲	2014.0	13	No load	0.38	12.5	11.2	10.1	5.6	23.0	
A TAX-EXEMPT SHORT-TERM	▲ ▲ ▲	954.8	14	No load	0.44	5.6	6.4	6.5	4.2	2.7	
A TAX-EXEMPT VA BOND		253.6	39	No load	0.50	12.7	11.0		5.4	22.4	
MASTER T/E I/T NON-PLAN	▲	302.5	21	4.50	0.64	10.8	9.8	9.0	3.6	9.3	
IE LINE TAX-EXEMPT HIGH-YIELD	AVG	290.1	1	No load	0.59	11.5	10.5	9.3	5.2	20.1	
KAMPEN INSURED T/F INCOME A		1225.9	24	4.65	0.79†	12.3	10.8	9.8	5.5	19.5	
KAMPEN MUNICIPAL INCOME A		596.2	18	4.65	0.64†	12.2	11.9		5.9	23.0	
KAMPEN PA T/F INCOME A	AVG	221.1	44	4.65	0.64†	13.2	11.7	10.6	5.6	21.7	
KAMPEN T/F HIGH-INCOME A	AVG	634.2	12	4.65	1.16†	15.7	7.9	7.3	7.0	21.3	
GUARD CA T/F INSURED LONG-TERM		1089.5	28	No load	0.19	12.8	11.1	10.1	5.2	14.7	
GUARD FL INSURED TAX-FREE		311.7	166	No load	0.24	13.4			4.8	14.1	
GUARD MUNICIPAL HIGH-YIELD		1903.6	18	No load	0.20	12.7	12.4	10.8	5.7	19.0	
GUARD MUNICIPAL INSURED L/T		2161.7	8	No load	0.20	13.1	11.6	10.5	5.3	20.0	
GUARD MUNICIPAL INTERM.-TERM	▲	5238.1	50	No load	0.20	11.6	10.8	9.9	5.0	7.4	
GUARD MUNICIPAL LIMITED-TERM	▲ ▲	1817.7	68	No load	0.20	6.3	7.4	7.4	4.3	3.0	

es redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA = Not available. NM = Not meaningful. (ll) Formerly Putnam MA Tax Exempt Income (mm) Formerly Putnam OH Tax Exempt Income Fund II. (nn) Formerly Sit "New Beginning" Tax-Free Income. (oo) Formerly Shearson CA Municipals Fund A. (pp) Formerly Shearson Managed Municipals A. (qq) Formerly on NY Municipals Fund A. (rr) Formerly Shearson Tax-Exempt Income Fund B. (ss) Formerly TNE Tax-Exempt Income

See page 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	CHG. 1999-03	SALES CHARGE %	EXPENSE RATIO %	TOTAL RETURN %			YIELD %	MATURITY (YEARS)	
VANGUARD MUNICIPAL LONG-TERM		1103.9	9	No load	0.20	13.5	12.1	10.9	5.4	20.0	
VANGUARD MUNICIPAL SHORT-TERM		1464.9	32	No load	0.20	3.8	5.2	5.9	3.6	1.3	
VANGUARD NJ T/F INS. LONG-TERM		766.4	30	No load	0.21	13.4	11.3	10.4	5.2	18.0	
VANGUARD NY INSURED TAX-FREE		826.7	39	No load	0.20	13.1	11.9	10.4	5.2	18.0	
VANGUARD PA T/F INS. LONG-TERM	AVG	1525.1	32	No load	0.21	12.7	11.7	10.5	5.4	18.0	
VOYAGEUR AZ INSURED TAX-FREE		263.3	112	4.75	0.51†	12.6			5.5	20.6	
VOYAGEUR CO TAX-FREE		399.2	97	3.90	0.70	13.7	11.6	10.4	5.4	21.0	
VOYAGEUR FL INSURED TAX-FREE		308.5	310	4.75	0.00†	12.4			5.6	23.3	
VOYAGEUR MN INSURED		311.2	91	4.75	0.61†	13.8	11.3	9.8	5.3	21.6	
VOYAGEUR MN TAX-FREE		458.1	38	4.75	0.96†	12.7	10.6	9.5	5.5	20.5	

INTERNATIONAL

ALLIANCE MULTI-MARKET STRATEGY B		404.4	-34	3.00**	2.79†	10.1			6.8	2.5	
ALLIANCE NO. AMERICAN GOVT. INC. B		1475.4	475	3.00**	2.54†	17.8			9.6		
ALLIANCE SHORT-TERM MULTI-MKT. B		1616.5	-39	3.00**	1.87†	7.0	5.0		5.7	1.6	
ALLIANCE WORLD INCOME		137.2	-47	No load	1.54†	7.1	4.7		7.0	0.5	
BB&K INTERNATIONAL FIXED-INCOME		172.9	4	No load	0.42	14.8	11.9		10.6	9.5	
BENHAM EUROPEAN GOVERNMENT BOND		356.6	8	No load	0.87	12.3			3.4	9.6	
BLANCHARD S/T GLOBAL INCOME		631.8	-36	No load	1.43†	8.5			6.6	2.9	
CAPITAL WORLD BOND		525.5	106	4.75	1.19†	16.7	10.7	9.6	5.8	10.2	
DEAN WITTER GLOBAL S/T INCOME		277.3	-24	3.00**	1.55†	6.0	5.2		6.5		
DEAN WITTER WORLD WIDE INCOME		265.2	-13	5.00**	1.86†	9.9	4.6		6.0	8.5	
EATON VANCE S/T GLOBAL INCOME		363.2	-24	3.00**	2.06†	10.6	6.0		7.0	6.8	
FIDELITY GLOBAL BOND	AVG	681.1	148	No load	1.15	21.9	12.5	11.6	6.5	11.5	
FIDELITY SHORT-TERM WORLD INCOME		418.1	-9	No load	1.05	12.4			6.4	2.9	
FRANKLIN GLOBAL GOVT. INCOME H		210.0	39	4.00	0.77	19.5	10.8	9.1	7.8	9.1	
FT INTERNATIONAL INCOME A		232.8	160	4.50	1.17†	27.0			7.2	9.3	
G.T. GLOBAL GOVERNMENT INCOME A		719.6	19	4.75	1.60†	25.5	13.3	11.9	7.5	13.4	
G.T. GLOBAL HIGH-INCOME A		176.0	NM	4.75	1.05†	51.6			9.9	13.1	
G.T. GLOBAL STRATEGIC INCOME B		427.6	NM	5.00**	2.50†	43.1			10.2	14.2	
GOLDMAN SACHS GLOBAL INCOME		676.2	15	4.50	1.30†	12.8			6.5	6.6	
HANCOCK FREEDOM GLOBAL INCOME B		190.1	-1	5.00**	1.94†	8.9	5.8	7.0	7.4	13.7	
IDS GLOBAL BOND		320.0	209	5.00	1.31	17.9	13.7		7.3	13.1	
KIDDER PEABODY GLOBAL F/I A		193.6	87	2.25	1.14†	14.4			6.0	11.1	
LORD ABBETT GLOBAL INCOME		277.5	87	4.75	1.22†	10.6	10.3	10.8	8.5	9.7	
MERRILL LYNCH GLOBAL BOND B		897.5	41	4.00**	0.82†	12.0	11.4	11.0	5.6	9.0	
MERRILL LYNCH S/T GLOBAL B		1513.1	-44	3.00**	1.49†	6.0	2.8		6.6	1.9	
MERRILL LYNCH WORLD INCOME B		2106.1	33	4.00**	1.54†	13.3			7.1	7.9	
MFS WORLD GOVERNMENTS A (UL)		443.9	40	4.75	1.53†	18.4	10.6	11.5	8.0		
PAINEWEBBER GLOBAL INCOME B		1175.6	419	5.00**	2.11†	13.4	8.1	9.4	6.0	11.4	
T. ROWE PRICE INTERNATIONAL BOND		745.2	44	No load	1.02	20.0	13.1	10.2	6.3	8.2	
PRUDENTIAL INTERM GLOBAL INC. A		320.6	-17	3.00	1.34†	15.8	8.8	8.6	6.7		
PRUDENTIAL S/T GLOBAL INCOME B		344.1	-24	3.00**	1.87†	7.2	5.0		5.3	2.4	
PUTNAM GLOBAL GOVTL INCOME A		576.2	38	4.75	1.27†	13.6	11.0	11.3	6.2	5.7	
SCUDDER INTERNATIONAL BOND	AVG	1365.0	84	No load	1.25	15.8	15.1	14.6	6.5	11.9	
SCUDDER SHORT-TERM GLOBAL INCOME		940.0	-15	No load	1.00	6.7			8.1	1.5	
SIERRA S/T GLOBAL GOVERNMENT		230.3	21	3.50	0.73†	6.6			7.0	3.2	
TEMPLETON INCOME		2177.0	20	4.50	1.01†	10.4	9.3	9.3	7.2	10.4	
VAN ECK WORLD INCOME		252.3	-10	4.75	1.26†	4.9	6.6	9.5	8.0	6.0	
VAN KAMPEN S/T GLOBAL INCOME B		372.6	-7	3.00**	1.85†	6.5			7.0	1.3	

CONVERTIBLE

AMERICAN CAPITAL HARBOR A		432.1	10	5.75	0.99†	13.6	15.3	12.8	4.0	12.0	
DEAN WITTER CONVERTIBLE SECS.		205.9	-6	5.00**	1.90†	15.7	16.1	9.3	3.3		
FIDELITY CONVERTIBLE SECURITIES	AVG	1063.9	121	No load	0.95	17.3	25.9	19.6	4.1		
PACIFIC HORIZON CAPITAL INCOME	AVG	154.2	NM	4.50	0.25†	20.2	26.3	19.8	2.2	9.4	
PHOENIX CONVERTIBLE	AVG	247.3	18	4.75	1.20†	9.9	11.9	11.9	3.7	11.5	
PRUDENTIAL INCOMEVERTIBLE B		310.0	-7	5.00**	2.09†	12.0	12.9	10.4	3.0		
PUTNAM CONVERTIBLE INCOME GRTH. A		704.1	12	5.75	0.96†	17.0	22.4	14.0	4.6	12.2	
VANGUARD CONVERTIBLE SECURITIES		204.4	52	No load	0.74	13.5	22.0	14.1	4.1	10.2	

MUTUAL FUND SCOREBOARD

FUND GROUP	TELEPHONE		FUND/FUND GROUP	TELEPHONE	
	TOLL FREE (800)	IN-STATE		TOLL FREE (800)	IN-STATE
Investment Program	253-2277	MA 617-330-5400	Liberty Family of Funds	245-5051	PA 412-288-1900
Liberty of Funds	553-7838	FL 407-655-7255	Liberty Financial Funds	872-5426	MA 617-722-6000
Liberty of Funds	347-1919	TX 713-626-1919	Lord Abbett Family of Funds	874-3733	NY 212-848-1800
Age Funds	243-8115	MA 617-742-9858	Mackenzie/Ivy Group of Funds	456-5111	FL 407-393-8900
Capital Group	227-4618	NJ 201-319-4000	MainStay Funds	522-4202	
Capital Group	421-5666	TX 713-993-0500	Marshall Funds	236-8560	WI 414-287-8500
Funds Group	421-0180	CA 213-486-9200	Merrill Lynch Group	637-3863	NJ 609-282-2800
Group	872-5859	NY 212-697-6666	MetLife-State Street Group	882-0052	MA 617-348-2000
Management Fund (AMF)	527-3713	IL 312-644-3100	MFS Family of Funds	225-2606	MA 617-954-5000
Funds	933-2852		Nations Funds	321-7854	
Fund Group	422-2766	MO 816-471-5200	Nationwide Funds	848-0920	OH 614-249-7855
Biehl & Kaiser Group		CA 415-571-5800	Neuberger & Berman Group	877-9700	NY 212-476-8800
Mutual Funds	792-2473	WI 414-765-3500	Nicholas Group		WI 414-272-6133
Mutual Funds	800-4612	OH 513-621-4612	North American Funds	872-8037	MA 617-266-6004
Group	472-3389	CA 415-965-4274	Northeast Investors Group	225-6704	MA 617-523-3588
in (Sanford C.) Fund		NY 212-756-4097	Nuveen Mutual Funds	351-4100	IL 312-917-7844
William Mutual Funds	742-7272	IL 312-853-2424	Oppenheimer Funds	525-7048	CO 303-671-3200
rd Group of Funds	922-7771	NY 212-779-7979	Overland Express Funds	552-9612	AR 501-377-2569
nd of America	See American Funds Group		Pacific Horizon Funds	332-3863	
ia Investment Trust Group	225-8778	CA 415-398-2727	Pacifica Funds	662-8417	NY 212-309-8400
Group	368-2748	MD 301-951-4820	PaineWebber Mutual Funds	647-1568	NJ 201-902-7341
World Bond	See American Funds Group		Paragon Portfolio	777-5143	
l Group	848-7734	OH 800-282-9446	Phoenix Funds	243-4361	CT 203-253-1000
l Group	248-2828	MA 617-426-3750	Pierpont Funds	521-5412	
ia Funds	547-1707	OR 503-222-3606	Pilgrim Group	334-3444	CA 310-551-0833
n Sense Trust	544-5445		Pioneer Group	225-6292	MA 617-742-7825
is Capital Group	451-8371		Portico Funds	228-1024	WI 414-287-3808
ite Group of Funds	543-8072	WA 509-353-3400	Premier Funds	242-8671	NY 718-895-1396
ck Partners Strategy O	See Dreyfus Group		Price (T. Rowe) Funds	638-5660	MD 410-547-2308
itter Funds	869-3863	NY 212-392-2550	Princor Family of Mutual Funds	451-5447	IA 515-247-6833
re Group	523-4640	PA 215-988-1333	Prudential Mutual Funds	225-1852	
& Cox Group		CA 415-434-0311	Putnam Mutual Funds	225-1581	MA 617-292-1000
Group	645-6561	NY 718-895-1206	Quest For Value Funds	232-3863	NY 212-667-7587
Mutual Funds	866-0614	KY 606-254-7741	Rochester Funds		NY 716-383-1300
ance Group	225-6265	MA 617-482-8260	SAFECO Mutual Funds	426-6730	WA 206-545-5530
ance Marathon Group of Funds	225-6265	MA 617-482-8260	Scudder Funds	225-2470	MA 617-439-4640
l Funds	637-6336		Seven Seas Series Fund		MA 617-654-6089
ed Funds	245-5000	PA 412-288-1900	Sierra Trust Funds	222-5852	
Advisor Funds	522-7297	MA 617-439-6793	Sit Group	332-5580	MN 612-334-5888
Group	544-8888		Smith Barney Funds	544-7835	NY 212-698-5349
estors Group	423-4026	NY 212-858-8000	Smith Barney Shearson Group	451-2010	NY 212-720-9218
ion Funds	326-2584	NC 704-374-4343	Society Funds	362-5365	
Income Securities	245-5051	PA 412-288-1900	Stagecoach Funds	222-8222	
estors Funds	767-3524		State Street Research Group	882-0052	MA 617-348-2000
o Funds	227-4648	OH 800-354-7447	SteinRoe Mutual Funds	338-2550	IL 312-368-7800
unds	800-2638	MN 612-738-4000	Strong Funds	368-1030	WI 414-359-1400
Investment Funds	245-5051	PA 412-288-1900	SunAmerica Funds	858-8850	NY 212-551-5125
l Group of Funds	342-5236	CA 415-312-2000	Tax-Exempt Bond Fund of America	See American Funds Group	
national Income A	See Liberty Family of Funds		Tax-Free Fund of CO	See Aquila Group	
r U.S. Government Secs A	See Liberty Family of Funds		Tax-Free Trust of AZ	See Aquila Group	
ental Family of Funds	322-6864	NY 212-635-3000	Tax-Free Trust of OR	See Aquila Group	
lobal Group of Funds	824-1580	CA 415-392-6181	Templeton Group	292-9293	FL 813-823-8712
Funds	628-0414		Thomson Fund Group	227-7337	CT 203-352-4900
l CA Municipal Bond	See Dreyfus Group		Thornburg Funds	847-0200	NM 505-984-0200
l Municipal Bond	See Dreyfus Group		TNE Fund Group	343-7104	MA 617-578-1400
l NY Municipal Bond	See Dreyfus Group		Transamerica Funds	343-6840	TX 713-751-2400
in Sachs Asset Mgmt. Group	762-5035		Twentieth Century Family of Funds	345-2021	MO 816-531-5575
in-McDonald Mutual Funds	869-5999	OH 513-579-5700	United Group	366-5465	KS 913-236-2000
ck (John) Mutual Funds	225-5291		U.S. Government Securities	See American Funds Group	
Funds	422-1050	OH 419-247-2477	USAA Group	382-8722	
an Tax-Free	See Aquila Group		UST Master Funds	233-1136	MA 617-451-1912
up	328-8300	MN 612-671-3733	Value Line Mutual Funds	223-0818	NY 212-687-3965
ls	955-7175	NY 212-446-5606	Van Eck Funds	221-2220	NY 212-687-5201
diate Bond Fund America	See American Funds Group		Van Kampen Merritt Family of Funds	225-2222	IL 708-684-6000
Family of Funds	525-8085	CO 303-930-6300	Vanguard Group	662-7447	PA 215-669-1000
ts Trust	656-6626	WA 206-625-1755	Voyageur Funds	553-2143	MN 800-247-1576
roup	525-8983		Woodward Funds	688-3350	MI 313-259-0729
Funds	621-1048	IL 312-781-1121	WPG Mutual Funds	223-3332	NY 212-908-9582
Investment Portfolios Group	621-1048	IL 312-781-1121			
te Group	343-2898	MA 617-338-3400			
Family of Funds	854-2505	NY 212-656-1640			
ason Family of Funds	822-5544	MD 410-539-0000			

HOSPITALS ATTACK A CRIPPLER: PAPER

Computers might be America's real health-care reformer

Walk into any U.S. hospital, and you might think you were in a high-tech mecca: Glowing monitors, lasers, imaging machines, and micromachines surround the patient. So what happens to the data being churned out by all this gadgetry? It's painstakingly written in a paper file. Then, the file takes a stroll with an orderly to the next stop—say, the radiology or pharmacology department, where yet another file on the same patient is started. Which might explain why doctors and nurses spend only 30% to 40% of their time giving care and more than 50% on activities that have no direct value to the patient.

So for all the hue and cry about the overuse of technology, one of the biggest problems plaguing America's bloated health-care system is a lack of the one technology that could save tens of billions of dollars: computers. A recent study by Arthur D. Little Inc. concluded that the annual U.S. health-care bill could be cut by more than \$36 billion if certain information technologies were deployed nationwide (table). Almost \$30 billion would be saved simply by compiling and transmitting patient information electronically.

"DEPERSONALIZED"? That concept might seem obvious to any office worker. But health care is 5 to 10 years behind the rest of American industry when it comes to computers. The industry that gobbles up some 13% of the gross domestic product is spending only 1% to 2% of its operating budget on information technology. That compares with 10% for banking, 6% to 7% for insurance, and 4% for manufacturing. In fact, health care is the only major industry still keeping paper records. The records aren't even very useful: About 30% of patient information needed during a typical clinical vis-

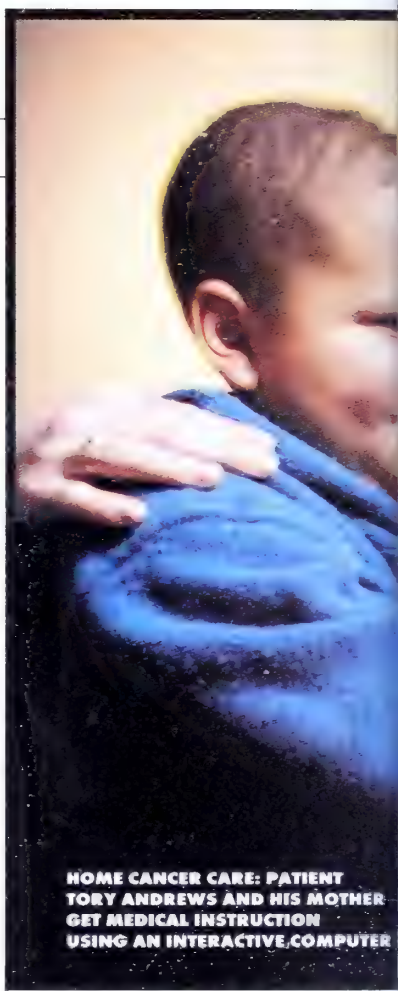
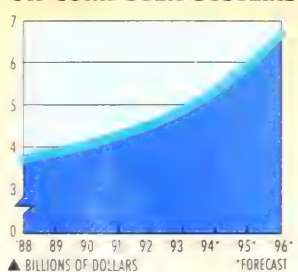
it is missing—stuck in a different file, according to an Institute of Health study. And you wondered why you had to keep answering the same questions over and over.

But the information revolution is finally reaching the hospital. Health-care reform, increased competition, and pressures from insurance companies are forcing hospitals and clinics to focus on efficiency and cost savings in a way they never had to, back when they could levy unlimited charges for unlimited treatment. At the same time, the advent of powerful, low-cost computers and sophisticated networking makes it practical to extend information technology out of the back office and into the wards. And emerging technology will take the information wherever doctors can go. Handheld personal digital assistants, for example, will be able to relay patient records or other information virtually anywhere. And low-cost personal-computer videoconferencing systems could soon make it possible for doctors thousands of miles apart to consult.

"The old view of computers was that they depersonalized and standardized medicine," says Jerome H. Grossman, chief executive of Boston's New England Medical Center. "But in the past two years, huge advances in technology have given us the opportunity to be more personal. It gives us the information we need to make good decisions."

A simple example: When patient records are on a network, the computer system can automatically sound an alarm if a doctor tries to prescribe the wrong medicine—or one the patient is allergic to. Mistakes in medications add about \$3 billion a year to the nation's health-care bill, according to Arthur D. Little. And computers have proved effective in preventing misprescribing. When Latter-Day

HOSPITAL SPENDING ON COMPUTER SYSTEMS



HOME CANCER CARE: PATIENT TORY ANDREWS AND HIS MOTHER GET MEDICAL INSTRUCTION USING AN INTERACTIVE COMPUTER

Saints Hospital in Salt Lake City stalled software to check patient against medication changes and lab results for possible adverse drug reactions. The computer had a catch rate 60% higher than doctors using paper records. **AFFAIRS OF THE HEART.** Computers do more than avoid costly errors. Called expert systems can help doctors make diagnoses and recommend the most cost-effective treatment. A system being tested by New England Medical Center helps doctors in emergency rooms determine in minutes whether a suspected heart attack is real—a diagnosis that usually takes several hours. The software correlates the patient's electrocardiograms with information about symptoms and age, and then calculates probability. A two-year study found reduced admissions by 30%, which c

a savings of perhaps \$1 billion a if deployed nationwide. mputers can even keep patients f the hospital entirely. Another tri- New England Medical involves in- g multimedia computers developed IBM in the homes of children with r. The interactive system instructs its on how to change dressings or nister a blood test. If the results

show the blood count has reached a dangerous level, the system automatically alerts the doctor. In addition to saving costly bed space, the system eases the trauma for cancer patients such as 8-year-old Tory Andrews of Dighton, Mass., by keeping them at home and with their families.

About 10% of the nation's 6,600 hospitals have figured out the advantages of

information technology and are in the midst of massive reengineering efforts (page 106). The remaining 90% have no choice but to follow, due to Medicare's edict that all providers must submit claims electronically by 1996. Most are still sent on paper. On top of that, health-care reform will almost certainly include mandates for measuring the efficacy of treatment, which means information must be easily available.

So all of a sudden, health care is the fastest-growing market in the computer field. Sheldon I. Dorenfest & Associates Ltd., a Chicago researcher, estimates that hospitals will spend \$6.7 billion a year on information systems in 1996, a 36.7% increase over last year (chart). The computer industry is certainly taking notice. IBM and Digital Equipment Corp. already have large businesses in this area, and others are rushing in. Hewlett-Packard Co., the world's largest medical-equipment maker, just set up a health-care group that includes everything the company offers to hospitals: computers, medical test equipment, and consulting services. "We think the U.S. market will reach \$13 billion by 1998," says Ben L. Holmes, general manager of the new group. "That's big money."

REGULAR NIGHTMARES. There's a lot of confusion about how to spend it, though. "Hospitals are coming to us in a panic, an absolute panic," says Erica L. Drazen, health-care consulting director at Arthur D. Little. Most are starting with a disconnected patchwork of aging, incompatible systems. And hospital boards and administrators have little experience spending money on equip-

ment that can't be directly charged off to the patient.

It doesn't help that most hospitals have long budgeted according to costs, not profits or revenues. Each department—radiology, the labs, or surgery—is treated as a separate cost center that has little incentive to cooperate with others. The result, says Newell I. Troup, Andersen Consulting partner in charge of health care, is that "health care has jurisdictional disputes that regular industry has only in nightmares." Kevin Schulman, a medical economist at Georgetown Medical School, tells of a hospital where the radiology department decided to save money by sending out only one copy of a report, instead of separate copies to each care provider. It won a hospital efficiency award, while the medical clinic in the same hospital



Rx FOR HOSPITALS

Hospitals could save more than \$36 billion* a year through information technologies, including these:

INSIDE TERMINALS Patient records would be kept on computers located in each room, replacing thick, hard-to-decipher paper files. Using a local-area network, doctors could order lab tests and medicines. The computer would alert the doctor if a patient were allergic to a particular drug.

TELECONFERENCING CAT scans and other images could be reviewed by specialists thousands of miles away. Teams of doctors scattered throughout a region could consult on a difficult case without having to move the patient.

HOME HEALTH TERMINALS Patients could consult on-line with doctors, key in results of self-administered tests for physicians to monitor, and call up information on their illnesses.

DIAGNOSTIC SYSTEMS Software programs would advise doctors on the likely diagnosis and preferred treatment of a particular set of symptoms, including a cost-benefit analysis.

*Source: Arthur D. Little Inc.

had to hire someone to reproduce that lone report for all the doctors who needed a copy.

Doctors have long been seen as another obstacle to bringing information technology to the front lines. But Arthur D. Little's Drazen says the situation is changing fast, as younger doctors move into the ranks. "Physicians need access to lots of different informa-

tion, and they want it at the point of care," she says.

Still, doctors are loath to cede control, and many think it would be only a short step from a system that offers treatment guidelines to one that dictates them—and reports back to insurers. "There is a cultural resistance to having a computer tell the physician what procedure he ought to follow," says

Timothy J. Hargarten, executive vice president for health-care delivery Electronic Data Systems Corp.

Perhaps. But the pressure to rein costs and deliver quality care to every American isn't going away. Inevitably that means doctors will find themselves joining the information revolution.

By Catherine Arnst in New York, Wendy Zellner in Dallas, and bureau reports

HOW ONE MEDICAL CENTER IS HEALING ITSELF

In Beaver County, Pa., people know a thing or two about industries that fail to keep up with the times. So when the Medical Center of Beaver decided to reengineer itself, it paid attention to the lessons learned from faltering steel mills in nearby Aliquippa and Youngstown, Ohio. Slow turnaround time and old-fashioned assembly lines led to their demise. Only the plants that reengineered themselves and turned to team manufacturing thrived.

When Medical Center President Robert N. Gibson saw competitive pressures building up in health care two years ago, he hired Andersen Consulting to reinvent his 470-bed, \$130 million hospital. And he took doctors, nurses, and administrators on tours of a reorganized Westinghouse Electric plant to show them how reengineering works. Now, the hospital is eight months into its own \$30 million revamp. In the updated wings, tiny antennae hang from the ceilings, infrared sensors blink above each hospital bed, and computer terminals hum in each room. Cellular phones and pagers link doctors and nurses to the hospital's brand-new computer and communications system. And throughout the hospital, there has been a fundamental rethinking about how various jobs are done.

BETTER MOUSETRAP. Like the Westinghouse plant, the hospital turned to a team approach. Each ward is a self-contained minihospital with its own administration, pharmacy, lab, and X-ray departments, all linked by one vast computer network. Bar charts tacked to the wall show monthly improvements in customer satisfaction and other quality measures. And administrators are convinced they will save lots

of money through increased efficiency. "We think we've got the better mousetrap," says Gibson.

That shouldn't be hard, considering the previous mousetrap. In the old system, which still prevails in most hospitals, patients were wheeled as much as seven miles during their stay. The hospital's goal was to build up volume in each department, without worrying about overall efficiency. So when the

written on paper often languished for hours. Now, when patients press buttons, pagers go off in doctors' and nurses' pockets. When help arrives, an infrared eye in the room detects his presence. Color-coded lights outside the door tell the others whether there's a nurse or technician inside, in case they need to find one quickly. Any procedures rendered are immediately recorded on computer terminals

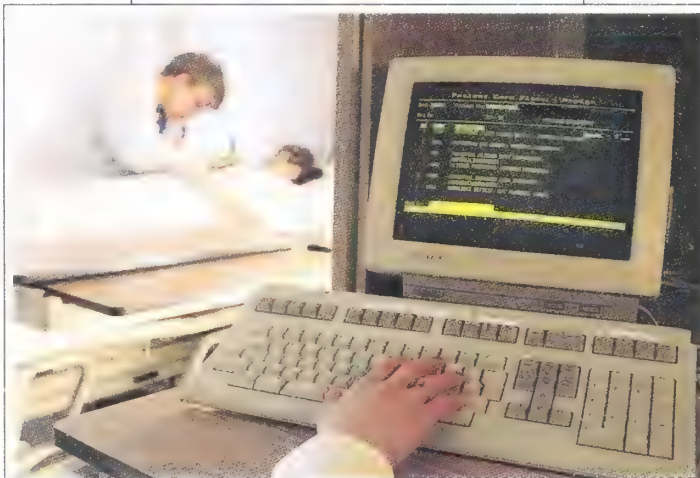
placed in each room. Where staffers need new medication, they go to an automatic drug dispenser that looks a lot like a bank teller machine.

A PRICKLY LOT. The technology is pretty spiffy, but the overhaul is far from complete. Systems specialists at the medical center are still struggling to reprogram an aging mainframe computer, used solely for arcane hospital finances, to handle patient care. But more important than the machinery is the reorganization. To make the team approach work,

administrators are working to break down the historic walls between turf-conscious medical and surgical divisions. Harder still, they must push doctors—a notoriously prickly lot—to alter their behavior, getting them to modify their treatments according to hospital guidelines. And they must spend hundreds of hours cross-training all of the employees.

All this means lots of effort. But the hospital's promise of guaranteed job security in exchange for flexibility is a powerful incentive to Beaver's 1,800 employees. After all, people in steel country know what competition can do to jobs. In the coming health-care shakeout, they want to be on the winning side.

By Stephen Baker in Beaver, Pa.



TEAMWORK: COMPUTERS NOW LINK ALL DEPARTMENTS

lab decided to process tests in batches to save money, it meant patients could wait up to eight hours for results.

Beaver's medical center and a handful of other hospitals are turning away from this assembly-line organization and moving toward multiskilled teams. The assumption is that the quicker such teams deal with patients' problems, the sooner they will have them out the door. "We want to cut down the turnaround time," says Francine Hixenbaugh, assistant patient-center leader in the ortho-neurology unit, which has cut average stays by 15%.

At the heart of the new approach is the advanced communication system. Gone are the bells and droning voices of the hospital intercom system. Gone is the nursing station, where orders

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CALLING OVERSEAS: WHICH PLAN IS FOR YOU

New York advertising executive Tammo Stubbe calls his parents and friends in Germany every week. To save money, he used to switch phone companies every few months to get the \$50-off introductory rate. These days, though, he's sticking with Sprint, since rates to Germany, at 39¢ a minute, are pretty cheap across the board. That's because the big three phone companies have widened their rivalry from the U.S. to the international arena with a host of perks and promotions. The reason: fatter profits. "The international calling market is growing at four to five times the domestic market," says Gregory C. Staple, a Washington communications lawyer.

Each phone giant is offering a different deep-discount international plan. Sprint rolled out The Most Worldwide (800 THE-MOST), MCI Communications launched Friends Around the World (800 777-5000), and American Telephone & Telegraph (800 521-WORLD) started its True World program last year. Since all major carriers use fiber-optic international lines, sound quality doesn't vary. So it will be price and convenience you'll want to compare. Which plan you choose will depend on when, where, and how often you call overseas.

Consider AT&T's True World. You get up to 27% off basic residential rates to 250 countries. For example, AT&T normally charges \$2.14 a min-

ute for a 10-minute weekend call to India. The plan rate is only \$1.56. AT&T also cuts the price of all calls to one country of your choice by an extra 15%. That would bring the India call to only \$1.33. And if you sign up in the next few months, AT&T will cut all weekend overseas calls by 50% more for a limited time, slicing the tab on your call to India to 78¢ per minute.

But to qualify for the discounts, you must pay a flat fee of \$3 a month. So this plan may not make sense un-

less you call overseas often. AT&T also offers a similar plan, True Country, which has no monthly fee but smaller discounts—15% off normal rates to a preselected country. A catch with AT&T—and Sprint—is that the deepest discounts are available only at specific times, which vary from country to country.

TRIPLE ALLIANCE? MCI's Friends Around The World program has no time restrictions but does have other drawbacks. It limits how many phone numbers you can call to get the deepest discount. You

have to set up a "calling circle" of up to 10 international numbers. When you call any one of those three people they call you, 20% is off the per-minute rate. But you get no discount calling abroad to someone outside your circle.

This is a good deal for most people, since 90% of households call only to overseas numbers. In any case, according to MCI research, But if you have lots of friends and family scattered around the world, one country or are doing business with many companies in a country, AT&T's plan may be the best deal. It only requires you to designate one country, not specific numbers.

SIMPLER RATES. Sprint's plan is the most flexible since you don't have to choose any number of countries in advance. Sprint automatically knocks off the charges for two international numbers you call most often each month. For example,

Sprint normally charges \$1.14 a minute to China. For two numbers, the charge would be \$1.16 each. If you sign up before May, Sprint will halve that rate on weekends, to 58¢ a minute, for the first four months of service.

To be more customer-friendly, all three carriers are simplifying their Byzantine rate structures. Previously there was one rate for the first few minutes of a call, then another for subsequent minutes. Worse, rates varied among a half-dozen different time periods. "It



hard for customers to get what a call would cost, says Mark Schweitzer, president of international marketing for MCI. The new plans make this easier because they have a fixed per-minute rate and only one or two calling periods.

The big three are also helping callers dial from all over America from 1. AT&T's USADirect, 1. Call USA, and 1. Sprint's Express each offer a local-access number to connect callers to one of that carrier's U.S. operators. Customers pay the regular international rate plus a total surcharge of about \$2, which is usually cheaper than the charges by foreign carriers.

The surcharge covers several benefits: You don't have to learn the quirks in local calling procedures around the world. You deal with an operator whose primary language is English. Third, you get access to 24-hour 800 numbers,

nately, the call isn't toll-free to you, but at least you can get the task done.

Other new services benefit travelers who want to call from one non-U.S. country to

Interestingly, though, it's far cheaper to call from, say, London to Tokyo for 10 minutes by routing the call through a U.S. switching center than by dialing direct.

Such a call using MCI's World Reach program would cost roughly \$33, compared with more than \$90 to dial direct through a hotel switchboard. Hotels and foreign phone companies often charge exorbitant rates. While the route is roundabout, there's no connect-time delay or

lapse in sound quality. So if your bonny lies over the ocean or you've let foreign friendships lapse, it's cheaper now to stay in touch. And if the domestic arena is any indication, the marketing wars will only get more intense.

Mark Lewyn

DIALING FOR (FEWER) DOLLARS

COUNTRY	AT&T			MCI			SPRINT		
	Reg rate	Min disc	Max disc	Reg rate	Min disc	Max disc	Reg rate	Min disc	Max disc
ITALY	\$1.31	.73	.37	1.16	.58	.29	1.13	.90	.34
INDIA	\$2.14	1.51	.78	2.12	1.16	.58	2.12	1.70	.78
JAPAN	\$1.42	.78	.39	1.41	.62	.31	1.41	1.13	.39

*All charges are per minute and may be subject to other variables

DATA: BUSINESS WEEK

which are a rarity abroad. If you want to change an airline reservation in London after hours, you're likely to find the local airline office closed, but with these plans, you can dial the airline's toll-free hotline in the U.S. via the carrier's local-access number. Unfortunately,

another. AT&T's World Connect program lets you call between any two of more than 73 countries. Sprint's World-Traveler service lets you call from 79 countries to 43, and MCI's World Reach plan is available from 41 countries to more than 61.

Baby Benz just hit a growth spurt. The 1994 version of Mercedes-Benz's best sedan is bigger, sturdier, and more muscular than last year's model. It's doing nicely with its athletic performance—especially the six-cylinder version.

The C-class, as it's now known, has a few more inches of length, width, and height than the Mercedes 190 it replaced. And it put on about 100 pounds. To compensate for the added heft, Mercedes added a pair of sophisticated, 24-valve engines. The C220 has a 2.2-liter, four-cylinder engine with 170 horsepower, 17 more than its predecessor; the C280 has a 2.8-liter six with 194 horsepower, or 36 more than the 190.

BEAT THE RIDE. Both models exhibit the old stability of Mercedes. Handling is nimbler than the 190's, with better grip and less body lean on corners. The ride is a bit firmer, but the trade-off for greater control is well worth the sacrifice. Standard disk brakes stop the car straight and short. But if you live in the snow belt, you want the optional trac-

tion control, since these rear-wheel-drive models are skittish on ice.

Power for the C220 is adequate, although there's little in reserve for merging confidently into heavy freeway

seconds. One downer: The automatic four-speed transmission in both models isn't as smooth as those found in the luxury cars of some of Mercedes' rivals.

Inside, the C-class is roomi-

can get a tad tight when the front seats are adjusted for tall folks.

Controls and gauges are also typical Mercedes: thoughtfully arranged and easy to use. Even the stereo controls, once cluttered and confusing, are cleaned up. Standard dual air bags protect front seat passengers in a crash, but leave little room for a glove box. Low and behold, the C-class is the first Mercedes to sport a cupholder. Unfortunately, it's awkward to use, since it's recessed into the center console directly between the driver and the passenger.

PRICE HIKES. The list prices of the Baby Benzes also grew somewhat: about \$900 over the 190. The C220 starts at \$29,900, including radio, air conditioning, sunroof, cruise control, and power windows. The C280 starts at \$34,900, which buys the larger engine, an upgraded sound system, and power front passenger seat.

Other options, such as fold-down backseats and leather interior, can boost the price to \$41,000. At those prices, the new Baby Benz rivals models from BMW, Lexus, and Infiniti.

David Woodruff

Autos

THE LITTLE BENZES SHED THEIR BABY FAT

THE C280 IS QUICK AND QUIET BUT COULD USE A SMOOTHER AUTOMATIC TRANSMISSION



traffic or passing on two-lane highways. And its four-cylinder engine buzzes annoyingly when pushed hard. By contrast, the C280, with its beefier engine, is delightfully quick and quiet. It zips to 60 miles per hour in just eight

er than the 190 and more comfortable. The driver's seat adjusts quickly, and the firm support wards off fatigue. Head and leg room is outstanding. Two adults fit comfortably in the back; three are a bit snug. And the leg room

Software

TAKE THIS CARD AND SCAN IT

You've returned from a long business trip and hardly feel like typing into your computer the names, titles, and numbers of your hot new contacts. Yet it sure would be nice to store those piles of business cards in an easy-to-search electronic address book.

A new breed of portable scanners promises to simplify the process. CypherScan from CypherTech, Scan-in-Dex from Microtek, and CardGrabber from Pacific Crest Technologies work on PCs with Microsoft Windows and use companion software to exploit so-called optical character recognition technology.

You feed a card into the scanners, and the OCR soft-

ware reads it and converts the information into digitized data that's entered into the PC. The \$349 CardGrabber and \$395 CypherScan 1000P connect to the parallel port, usually used for the printer cable, behind your PC. The \$399 Scan-in-Dex and \$495 CypherScan 1000 include circuit boards that go into the PC, making them unsuitable for laptops.

MISTAKES HAPPEN. "Expert systems" in the software help determine that "Smith" belongs in the last-name database field and "vice-president" in the title area. The machines also can scan visual images of each side of the card, handy for people who jot notes on the back. Once cards are loaded in the PC, you can sort through them by name, city, or other variables and transport the information to



other data-base programs.

Because of limitations in OCR software, mistakes are common in all the systems. The Walkman-size CardGrabber, for example, is fully accurate on about 60% to 70% of most cards, claims Rich Sondheimer, president of Pacific Crest Technologies. And it's useless on 5% to 10%—including those with white text on black backgrounds or with unusual colors or photos. Micro-

tek says about 10 cards are error-free. So you may have to fix spelling mistakes, move misplaced data to its proper field, or type in company names since the scanner can't read many logos, including the famous big blue

The one system BUSINESS WEEK tested, the CardGrabber, revealed some of the technology's drawbacks. The system placed my last and first names, zip code, phone numbers in their correct fields, but couldn't move out the red, white, and blue BUSINESS WEEK logo. It recorded half of my title, which appears in two lines on the card, and instead of putting me in Washington, D.C., the software put me in Providence, Rhode Island. Still, making these corrections may be easier than typing all the data from scratch. *Edward L.*

Smart Money

A CHEAPER WAY TO PROTECT HEARTH AND HOME

To meet the deluge of claims from natural disasters, many insurers are raising homeowners' premiums. All the more reason to look now into coverage that could save years' worth of annual payments.

It's called perpetual homeowners insurance, and it works like regular homeowners' coverage except that instead of paying a yearly premium, consumers pay a lump sum that's typically 10 times the annual amount. If the yearly premium on a \$100,000 home is \$300, the perpetual policy would be \$3,000.

ONE CHECK. After the onetime deposit, perpetual insurers require additional payment only if the replacement value of the home rises. But, unlike conventional policies, inflation won't affect the price. To cover administrative costs and claims, the insurer invests the lump sum. The interest

earned is not taxable to the policyholder. If you sell your home or cancel the insurance, the deposit is refunded.

The real advantage of perpetual insurance is that if you invested the \$3,000 your-

self, it would be hard to get the 10% return—before or after taxes—needed for a \$300 yearly premium. So you come out ahead by giving the money to the insurer. The biggest problem may be qualifying. John Snyder, a senior vice-president with insurance rating agency A. M. Best, says perpetual insurers "generally only insure the preferred homeowner" likely to file few claims.

MORTGAGE HELP. At least a dozen insurers offer the coverage, including Mutual Assurance, Cincinnati Equitable, Baltimore Equitable, and Philadelphia Contributionship. Mutual recently launched a marketing campaign of

its perpetual policies in Pennsylvania, New Jersey, Delaware, Ohio, and Maryland, and it wants to extend coverage countrywide.

One drawback: You have to tie up a lot of money for years. And, after buying a house, many people can't spare the cash. A solution is to add the cost of the insurance to your mortgage loan. The annual payments, which are reduced by the tax savings on interest paid, are still less than conventional premiums. You build the cash value of the policy as you pay down your mortgage. The insurance portion goes directly from the lender to the insurer. If you cancel before paying off the loan, you only get back the sum that has accumulated.

So in addition to refinancing your mortgage, you have another way to cut the cost of owning a home. You always channel the savings into building that new far room. *Chris Ro*

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DATA: THE GREEN TREE INSURANCE CO.

Collecting

KEEPING THOSE ANTIQUES FROM SHOWING THEIR AGE



IF YOU WANT TO KNOW MORE...

ADVICE Call the conservation lab at your local museum. Also, the American Institute for Conservation of Historic & Artistic Works (202 452-9545) offers lists of conservators in your area

BOOKS *Caring for Your Collections: Preserving and Protecting Your Art and Other Collectibles* (Abrams, N.Y.C., \$39.95) or call 202 625-1495. *Keeping It All Together* (Ohio Antique Review, Worthington, Ohio, \$4.95) (800-992-9757)

SUPPLIES Conservation Materials in Sparks, Nev., offers a \$3 catalog for collectors (800-733-5283) or University Products in Holyoke, Mass., will send you a free catalog (800 628-1912)

DATA: BUSINESS WEEK

by framing art under UV-absorbing plexiglass or by bouncing lights off white walls instead of shining them directly on the art. Ordinary light

should be controlled, too. Oil paintings and furniture can withstand 300 to 500 lux—normal office lighting. Textiles, pastels, and watercolors need

dim lighting (50 lux). Dickson Co. (800 323-2448) in Addison, Ill., sells meters for \$129 that measure ambient light.

The key to cleaning antiques is using gentle materials. That rules out commercial products such as spray furniture polishes, which typically contain silicone that can harm some antique wood finishes. Conservators recommend using a cotton cloth dampened in water mixed with a drop of nonionic soap or something mild, like Ivory. When the object dries, dab on some paste wax, such as Butcher's Wax, and then buff it off with a soft cotton cloth, leaving only a microscopic coating.

TARNISH CONTROL. The challenge with silver is removing tarnish without rubbing off even minuscule amounts of the silver. Museums use precipitated chalk and deionized water. But Kneeland says cloths treated with a mild polish, which cost about \$5, are next best. Avoid silver dips and polishes, which are too abrasive. As for displayed silver you don't use, have it cleaned and lacquered professionally—you won't have to polish it again for about 40 years.

If a piece is dented, scratched, or deteriorating, take it to a professional conservator who specializes in that kind of object (chart). Restorers who are not specially trained may ruin antiques. Conservators are pricey (\$50 to \$70 an hour) but are highly trained in their specialty. And, because they care about the object's basic "integrity" and the "intent of the crafts-person," they won't create new problems while fixing old ones. Says Podmaniczky: What often takes the most time is undoing a botched repair job. *Ameiy Stone*

Worth Noting

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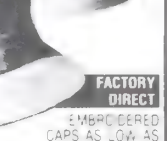
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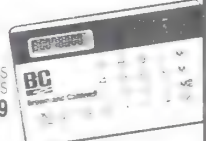


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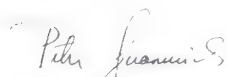
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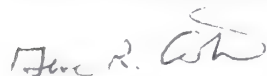
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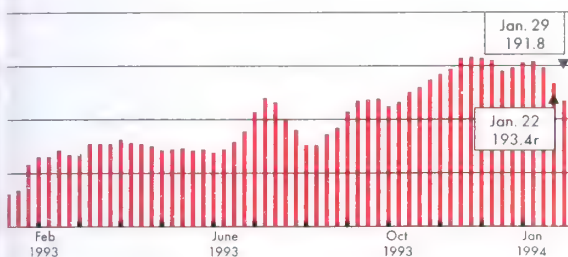
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BusinessWeek Index

PRODUCTION

Change from last week: -0.8%
Change from last year: 3.2%

1967=100 (four-week moving average)

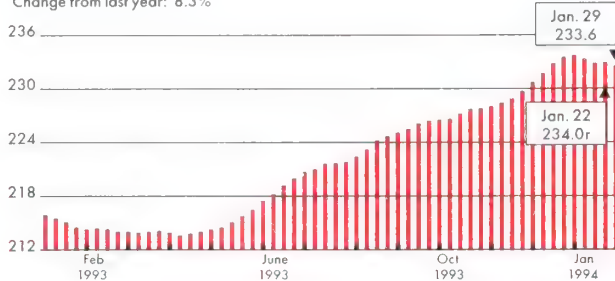


Production index dropped during the week ended Jan. 29. Seasonally adjusted output levels of steel, autos, trucks, coal, and rail-freight traffic increased; electric power, and crude-oil refining production decreased. Data for paper and paperboard remain unavailable. Before calculation of the four-week moving average, the index rebounded to 191.1, from 188.9, as weather returned to more moderate conditions. The index fell to 191.8 in January, from 195.4 in December.

BW production index copyright 1994 by McGraw-Hill Inc.

LEADING

Change from last week: -0.2%
Change from last year: 8.3%



The leading index declined during the week ended Jan. 29. Slower growth rates for real estate loans and M2 money supply, as well as a rise in large-business failures, offset improved growth in materials prices. Stock prices and bond yields were virtually unchanged. Before calculation of the four-week moving average, the index dropped to 232.8, from 234. For all of January, the index fell to 233.6, from 234.6 in December.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(2/5) thous. of net tons	1,859	1,800#	4.0
(2/5) units	150,726	151,791r#	24.7
(2/5) units	122,310	127,556r#	29.3
ELECTRIC POWER (2/5) millions of kilowatt-hours	63,872	61,008#	8.4
CRUDE OIL REFINING (2/5) thous. of bbl./day	13,201	13,018#	2.3
(1/29) thous. of net tons	21,029#	15,409	-0.6
STEEL (1/29) thous. of tons	NA#	NA	NA
COAL (1/29) thous. of tons	NA#	NA	NA
RAIL (1/29) millions of ft.	489.2#	471.7	-1.6
TRUCKS (1/29) billions of ton-miles	21.6#	17.2	-0.5

= American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, U.S. Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SFPAA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
U.S. DOLLAR (2/9)	108	108	121
WEST GERMAN MARK (2/9)	1.76	1.73	1.65
BRITISH POUND (2/9)	1.46	1.49	1.42
FRANCO-FRANC (2/9)	5.97	5.88	5.57
EURO DOLLAR (2/9)	1.34	1.33	1.25
FRANCO-FRANC (2/9)	1.48	1.45	1.53
ARGENTINE PESO (2/9) ³	3.105	3.105	3.097

= Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
(2/9) \$/troy oz.	380.750	384.700	15.4
CRAP (2/8) #1 heavy, \$/ton	139.50	139.50	27.4
PUFFS (2/7) index, 1967=100	217.9	219.6	10.3
(2/5) ¢/lb.	92.8	90.3	10.9
NUM (2/5) ¢/lb.	60.8	58.5	10.5
(2/5) #2 hard, \$/bu.	3.81	3.87	-0.5
(2/5) strict low middling 1-1/16 in., ¢/lb.	72.25	69.39	34.7

= London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals and Minerals City market, Memphis market

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Iron and Steel Institute. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (2/4) S&P 500	478.75	474.37	7.3
CORPORATE BOND YIELD, Aaa (2/4)	6.93%	6.91%	-10.9
INDUSTRIAL MATERIALS PRICES (2/4)	96.5	95.9	-3.0
BUSINESS FAILURES (1/28)	316	292	-21.8
REAL ESTATE LOANS (1/26) billions	\$417.5	\$419.4r	1.9
MONEY SUPPLY, M2 (1/24) billions	\$3,539.7	\$3,540.7r	2.6
INITIAL CLAIMS, UNEMPLOYMENT (1/22) thous.	363	365r	3.1

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Jan.)	191.8	195.4r	3.2
BUSINESS WEEK LEADING INDEX (Jan.)	233.6	234.6r	8.3
EMPLOYMENT, CIVILIAN (Jan.) millions	122.0	120.7	3.2
UNEMPLOYMENT RATE, CIVILIAN (Jan.)	6.7%	7.0%	NM

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/24)	\$1,136.0	\$1,132.6r	9.9
BANKS' BUSINESS LOANS (1/26)	278.8	278.8	-1.0
FREE RESERVES (2/2)	1,307	1,582r	11.8
NONFINANCIAL COMMERCIAL PAPER (1/26)	154.7	154.4	5.7

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (2/8)	3.24%	3.25%	2.92%
PRIME (2/9)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (2/8)	3.49	3.17	3.18
CERTIFICATES OF DEPOSIT 3-MONTH (2/8)	3.42	3.16	3.12
EURODOLLAR 3-MONTH (2/4)	3.20	3.13	3.18

Sources: Federal Reserve, First Boston

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A	Bardays de Zoete Wedd 46	Commodore International 66	Fidelity Aggressive Tax-Free Fund 91	Huntsville Coca-Cola Bottling 39
Acclaim Entertainment 66	BBC 46	Compaq Computer 44	Fidelity Investment Grade Bond Fund 91	I
AdValue Media 46	Bell Atlantic 46	Countrywide Credit 6	Fireworks Partners 85	IBM 17, 39, 44, 61, 74, 85, 104, 110
Advanced Micro Devices 44	Bertelsmann Music Group 17, 38	Cowen 88	Ford 17, 37	Information Resources 44
Advanced RISC Machines 74	Beymark 39	Crédit Lyonnais 53	Franklin U.S. Government Securities Fund 91	Integrated Device Technology 74
Aetna 61	Bloomberg Financial Markets 46	CypherTech 110	Fuji 44	Intel 8, 74
Air France 53	BMW 6	D	G	ITT 17
Alcoa 44	Bolar Pharmaceutical 80	DC Comics 88	Gartner Group 39	J
Alliance Capital Management 32	Bristol-Myers Squibb 44	Dean Foods 37	GE 46	J.I. Case 37
A.M. Best 86	British Aerospace 6	Dean Witter Reynolds 44, 84	GEC Plessey Semiconductors 74	K
American Airlines 6	Brooke Group 88	Deja Shoe 8	Genpharm/Alphapharm 80	Keeley Investment 88
American Capital Tax-Exempt High-Yield Fund 91	BTR 6	Deloitte & Touche 12	GM 6, 32, 56, 61, 88	Kemper Financial 24
American Express 76	C	Dickson 111	Goldline Laboratories 80	Komatsu Dresser 37
American Fund Advisors 32	Calvert Group 111	Digital Equipment 12, 44, 104	Goldman Sachs 66, 71	Konen Suzuki 37
Amgen 17	Canon 44	Digital Pictures 66	Goodby, Berlin & Silverstein 66	L
Andersen Consulting 104, 106	Caterpillar 37	Dow Jones 46	Gray 34	Ladenburg Thalmann 88
Apple Computer 44, 74	CellStar 88	Dreyfus Short-Intermediate Municipal Bond 91	Groupe Bull 53	Lehman Brothers 24, 76
Arthur D. Little 104	Chase Manhattan Bank 17	E	Gulf & Western Industries 66	Liggett Group 88
AT&T 6, 66, 108	Chemical Securities 61	Eastman Chemical 58	H	LSI Logic 74
Atari 66	Chiat/Day 76	Eastpak 8	Harbor Bond Fund 91	Lucas Industries 6
B	CIGNA 84	Electronic Data Systems 88, 104	Hasbro 66	M
Bally Mfg. 66	Cincinnati Equitable 110	Electronic Realty Associates 85	Hewlett-Packard 104	Madison Guaranty Savings & Loan 32
Baltimore Equitable 110	Cineplex Odeon 8	EMC 39	Hill & Knowlton 34	Martin Marietta 66
Bankers Trust 6	Citicorp 17, 46	EMI 38	Hitachi 66, 74	Matchbook International 66
Bantam Doubleday Dell 17	CNN 46	Exxon 17	Hodgson, Russ, Andrews, Woods & Goodyear 80	Mattel 66
Barbara Oil 64	Coca-Cola 17	F	HomeView Realty 85	Mazda 37
		Fidelity Advisor High-Yield 91	Honda 62	McGraw-Hill 46
			Hughes Aircraft 56	MCI Communications 108

Q	Quad Pharmaceutical 46	R	Raymond James & Associates 88	S	Salomon Brothers 39
Quotron 46	QVC Network 38	RE/MAX 85	Reality Technologies 8	Sanco Toy 66	Sanford C. Bernstein
R		Reebok 8	Reuters 46	Sara Lee 17	Science Watch 56
Raymond James & Associates 88		Ricoch 74	Rover 6	Scott Paper 61	Sears 44
RE/MAX 85				Sega 66	Sega Enterprises 66, 74
Reality Technologies 8				Send-a-Song 111	Sharp 74
Reebok 8				Sheldon I. Dorenfest & Associates 104	Shell 17
Reuters 46				Shell Graphics 62, 71, 74	SkyBox International
Ricoch 74					Smith Barney Shearson
Roberts of Atlanta					SmithKline Beecham
Rover 6					Sony 17, 38, 66, 71
S					Southwest Airlines 76
Salomon Brothers 39					Southwestern Bell 88
Sanco Toy 66					Spectrum Information Technologies 44
Sanford C. Bernstein					Sprint 108
Sara Lee 17					Standard & Poor's 8
Science Watch 56					Starensier 8
Scott Paper 61					Storage Technology
Sears 44					Strong Advantage Fu
Sega 66					Suzuki 37
Sega Enterprises 66, 74					T
Send-a-Song 111					Tektron Software
Sharp 74					Tele-Communications 66
Sheldon I. Dorenfest & Associates 104					Telemundo Group 46
Shell 17					TeleNoticias 46
Shell Graphics 62, 71, 74					Time Warner 17, 38
SkyBox International					Topps 88
Smith Barney Shearson					Toshiba 74
SmithKline Beecham					Toyota 37
Sony 17, 38, 66, 71					Toys 'R' Us 76
Southwest Airlines 76					Transamerica Insurance Group 84
Southwestern Bell 88					U
Spectrum Information Technologies 44					Upjohn 80
Sprint 108					UPS 44
Standard & Poor's 8					V
Starensier 8					VAMP Health 46
Storage Technology					Viacom 38
Strong Advantage Fu					Vitarine Pharmaceutical
Suzuki 37					VLSI Research 74
T					Volkswagen 17
Tektron Software					W
Tele-Communications 66					Wal-Mart 85
Telemundo Group 46					Walt Disney 66, 88
TeleNoticias 46					Western Union 88
Time Warner 17, 38					Westinghouse 58, 61
Topps 88					Wheat, First Securities
Toshiba 74					Y
Toyota 37					Yamaha 74
Toys 'R' Us 76					Z
Transamerica Insurance Group 84					Zenith 64

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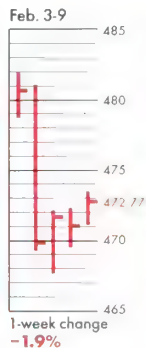
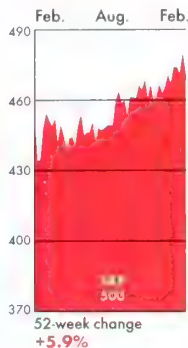


Investment Figures of the Week

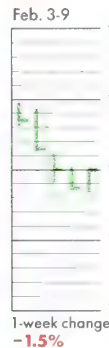
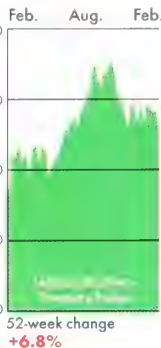
SENTARY

ome week in the U.S. equities. Sparked by a Federal decision to hike the federal rate from 3% to 3.25%, imbled across the board y, Feb. 4. The Dow Jones il average fell 96 points, to 2.4% decline, and broades—and bonds—also tumestors caught their breath weekend, and stocks re. But options traders reernervous, pushing the put—a contrarian sentiment into bullish territory.

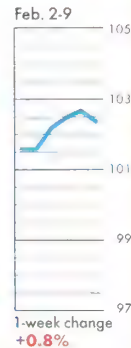
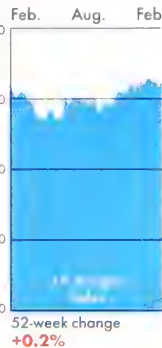
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
INDUSTRIALS	3931.9	-1.1	15.2
COMPANIES (S&P MidCap Index)	181.5	-1.4	10.6
COMPANIES (Russell 2000)	265.2	-0.9	16.0
COMPANIES (Russell 3000)	273.5	-1.8	6.9

FIN STOCKS	Latest	% change (local currency) Week	% change 52-week
(FINANCIAL TIMES 100)	3429.1	-2.6	21.8
NIKKEI INDEX	19,841.4	-2.0	16.1
(TSE COMPOSITE)	4463.2	-2.4	29.6

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.31%	3.13%	2.99%
30-YEAR TREASURY BOND YIELD	6.42%	6.28%	7.25%
S&P 500 DIVIDEND YIELD	2.51%	2.43%	2.78%
S&P 500 PRICE/EARNINGS RATIO	22.0	22.6	21.9

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	464.7	463.7	Positive
Stocks above 26-week moving average	54.0%	61.5%	Negative
Speculative sentiment: Put/call ratio	0.46	0.38	Positive
Insider sentiment: Vickers sell/buy ratio	1.60	1.65	Positive

INDUSTRY GROUPS

WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
ENGINEERING AND CONSTRUCTION	10.4	11.5	FOSTER WHEELER	18.2	28.7	39 3/4
Mining	10.3	4.9	YELLOW	14.1	0.4	29 1/4
ALUMINUM	8.2	6.8	ALCAN ALUMINIUM	9.5	24.1	24 1/2
STEEL	7.8	19.5	NUCOR	15.6	37.8	58 1/2
COAL	6.6	10.3	CYPRUS AMAX MINERALS	11.8	12.7	30 7/8

WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
HEALTH-CARE SERVICES	-10.4	-19.2	ALZA	-16.0	-35.8	24 1/4
MINING	-9.6	61.3	AMERICAN BARRICK RESOURCES	-12.8	61.9	25 1/2
BANKS AND LOANS	-8.5	-11.8	GREAT WESTERN FINANCIAL	-13.4	-5.3	17 3/4
PHARMACEUTICALS	-8.3	-5.5	PFIZER	-14.6	-6.1	59 3/8
OIL AND GAS DRILLING	-7.4	8.0	ROWAN	-9.9	0.0	8

MUTUAL FUNDS

STOCK FUNDS	% total return	% 4-week total return	% 52-week total return
JAPANESE SMALL COMPANY	16.2		
LATIN AMERICA GROWTH A	13.1		
ONE NIKKO JAPAN	11.9		

BOND FUNDS	% total return	% 4-week total return	% 52-week total return
STON STRATEGIC INVESTMENTS	202.4		
ONE PRECIOUS METALS HOLDINGS	104.2		
SERVICES WORLD GOLD	103.5		

LAGGARDS	% 4-week total return	% 52-week total return
LEXINGTON STRATEGIC INVESTMENTS	-12.8	
UNITED SERVICES GOLD	-12.8	
MONITREND GOLD	-8.2	
PILGRIM CORPORATE UTILITIES	-16.4	
FORUM INVESTORS STOCK	-14.7	
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-13.1	



RELATIVE PORTFOLIOS

PORTFOLIO	Investment	Value	% change
Foreign stocks	Foreign stocks	\$14,336	-2.97%
Gold	Gold	\$11,604	-0.29%
Treasury bonds	Treasury bonds	\$11,561	-1.77%
U.S. stocks	U.S. stocks	\$10,777	-1.79%
Money market fund	Money market fund	\$10,208	+0.04%

This page is as of market close Wednesday, Feb. 9, 1994, unless otherwise indicated. Funds include S&P 500 companies only; performance and share prices are as of market close.

Feb. 8. Mutual fund returns are as of Feb. 4. Relative portfolios are valued as of Feb. 8. A more detailed explanation of this page is available on request.

A REPUBLICAN REFORMER FOR NEW YORK CITY

Philadelphia, Indianapolis, Cleveland, Chicago, Los Angeles, and now New York City. While the nation's political attention has been focused on the Clinton Administration, significant changes are sweeping many of America's cities that will have a direct economic impact on millions of people. A major shift is under way as cities move from European-style welfare statism toward a new, pragmatic, pro-growth model of government.

There is no more striking milestone in this shift than the proposed budget of the newly elected mayor of New York City, Rudolph W. Giuliani. With it, the political agenda of New York begins to move from redistributing income and protecting welfare and housing entitlements toward efficient delivery of core services and helping the economy.

Between 1987 and 1993, as Corporate America was downsizing, New York lost nearly 360,000 private-sector jobs. Yet the city added 15,000 to its payrolls for a total of 355,000 jobs. Local-government employment is now 16.7% as a percentage of private employment—50% greater than in Chicago.

Residents pay 40% more than the national average in state and local taxes. Some of these taxes go to legitimate health, education, and welfare expenses. After all, New York is a gateway city, assimilating millions of immigrants. But other taxes wind up paying for city jobs, fattening public-service unions who then deliver votes to politicians.

The Giuliani budget starts to address a new urban agenda:

- Opening city monopolies to competition, pitting unionized workers against private companies to provide the most cost-efficient services, such as sanitation.

- Reengineering work by cutting management and rigid civil-service and union work rules.

- Revitalizing the private economy by cutting personal and business taxes and streamlining regulations.

Mayor Giuliani's budget proposal is a good first step toward reinventing New York City government. It comes at a good time. The city's economy is picking up. Its corporations are global competitors in finance, entertainment, publishing, and telecommunications. It is now up to the city's liberal constituents and political factions to realize that with a \$2.3 billion deficit, Giuliani's program must be given a chance if the city's basic strengths are to reassert themselves.

PICK PERRY, SKIP THE SANCTIMONY

As a generation of women moves into top jobs in government and business, a new ethical problem appears to be troubling Washington: how to deal with spousal conflicts of interest. Increasingly, high-level government officials are married to executives who potentially could benefit from the personal relationship.

Because this is a relatively new phenomenon, the ethical guidelines are in flux. That is why the Clinton Administration is stymied over whether to proceed with the nomination of economist George L. Perry to the Federal Reserve Board. His wife, Dina, is a mutual-fund stock portfolio manager whose activities can be affected heavily by the Fed's interest rate moves. While George Perry's nomination might clear legal hurdles, some believe the appointment creates an appearance of conflict.

The fact is that spousal conflicts in Washington should be handled no differently than other potential conflicts of interest. There have always been potential conflicts involving fathers, sons, daughters, and friends. It is ridiculous to hold spouses to a higher standard, particularly if that means women sacrificing careers.

What's most needed is plain common sense. In some cases, one spouse or another may have to recuse themselves from matters where real conflict exists. For instance, Hillary Clinton probably should not have represented clients before state agencies while her husband was governor. In the George Perry case, full disclosure plus personal integrity ought to be sufficient. To do otherwise is to assume that Perry will use his position at the Fed to benefit his wife's portfolio. Ridiculous.

PUT THIS HEALTH PLAN OUT OF ITS MISERY

Bill Clinton's week in health-care hell came to a close on Feb. 8. After three major business groups issued stinging rejections of his plan, the Congressional Budget Office landed several solid blows. The nonpartisan CBO insists that Clinton's mandatory premiums should be treated as taxes, adding a \$500 billion program to the federal budget. By the CBO's reckoning, the White House's chances come up short: Instead of the claimed \$58 billion deficit reduction over five years, \$74 billion in red ink will be added.

President Clinton snapped back that it's just a dispute between policy wonks. Besides, he argues, the difference doesn't matter, since a limit would be set on total health spending. But CBO Director Robert D. Reischauer says this proposed limit won't work. Once the government provides guaranteed health care, Reischauer argues, the federal courts would insist that Uncle Sam delivers—even if it means violating a cap.

Who knows who's right? And that's precisely the point. Should Washington create a vast new entitlement with uncontrollable costs? No. Instead, Congress and the White House should focus on a more limited reform program. Representative Jim Cooper (D-Tenn.) has a plan that emphasizes market incentives to control medical costs. Senator John H. Chafee (R-R.I.) wants to lock in health savings and then expand health coverage to others. Some combination of their plans could guarantee universal access over time. It would take longer, but at lower cost and without disruption.

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SO what's new?

Chairman visits basement.

January 1992. Don Grimm, Chairman of biotech firm Hybritech Incorporated, takes a look into the future. And likes what he sees.

Don is visiting Steelcase, quizzing executives about their quality processes, when he's waylaid by a group from R&D. Taken to the basement. And given a glimpse of Personal Harbor™ and Commons™, a prototype working environment.





"We were in the process of setting fully dedicated, cross-functional teams, and we needed to bring people together," says Don. "I knew instantly this would help."

A team of Hybritech scientists have since gotten a Personal Harbor and Commons environment of their own.

"It's really changed the way they work," says Don. "The teams get more done in less time. Communication is spontaneous, issues are resolved quickly and they feel a greater sense of ownership."

"They've developed a diagnostic test in five months that normally would have taken 14."

Of course, none of this might have happened if not for Roy Lange of BKM, a Steelcase dealer. "Roy gets the credit," notes Don. "He had the foresight to say, 'Hybritech and Steelcase have a lot in common. Let's set up a meeting, and let nature take its course.'"

"But then—he didn't say anything about basements."

***Note:** If your company is searching for tools that can help your people work more effectively, please call 1-800-333-9939. Or just call your local Steelcase representative. Don't forget to ask for a copy of the Hybritech Case Study.*

Steelcase

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The new Toyota Supra. It's taken everything sports cars were before

and crossed the line

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U.S. vs. JAPAN: SQUARING OFF FOR A TRADE WAR?

ESS WEEK

February 28

BusinessWeek



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JANUARY 28, 1994

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THE LEARNING REVOLUTION

New information technologies
are helping education
come alive — at home
and at school

PAGE 80

SPECIAL REPORT



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 **Bankers Trust**

Risks prowl ceaselessly around every business. Usually, they hunt in packs. Dealing with them piecemeal is ineffective. More often than not, they're linked.

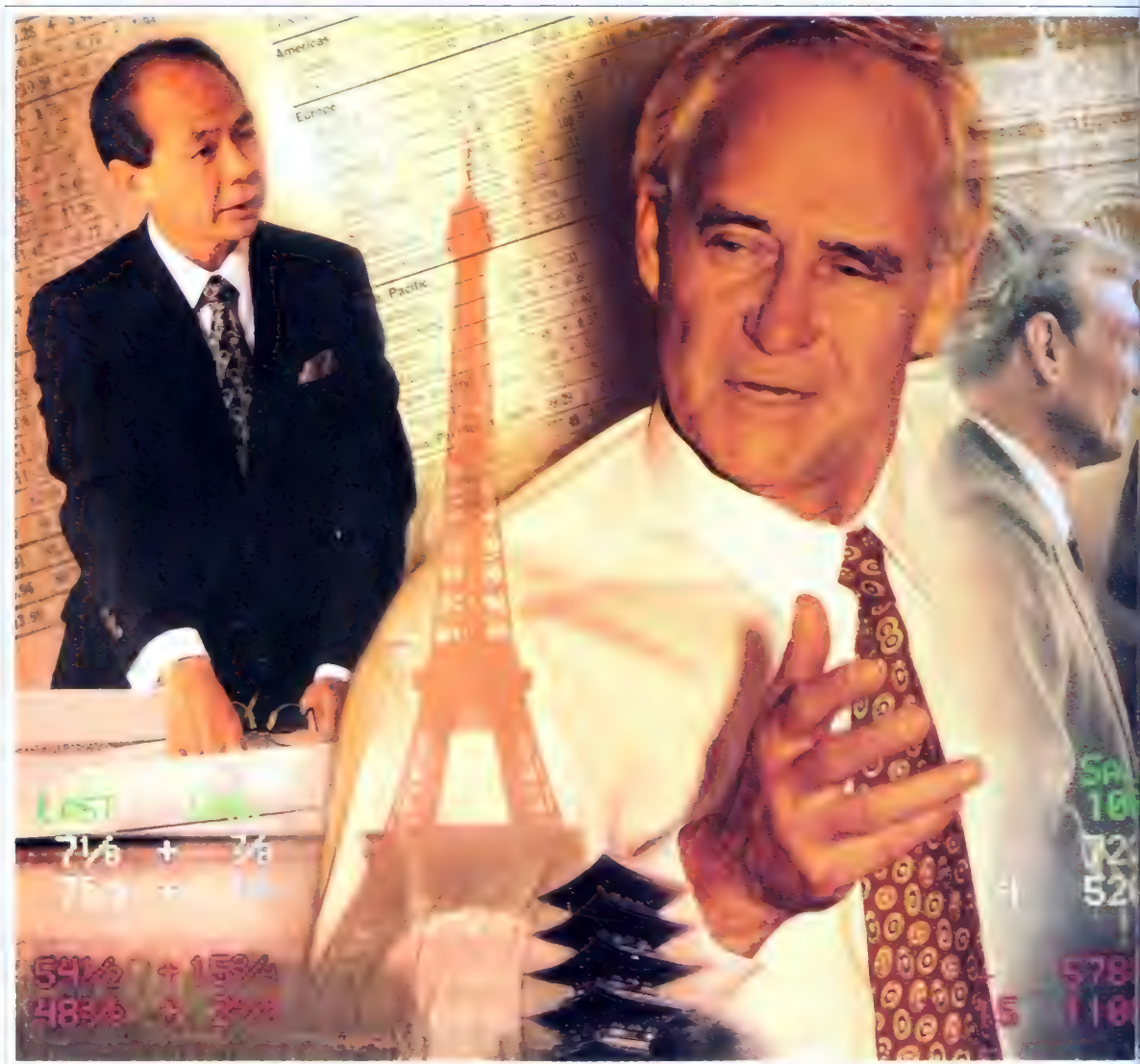
Nowhere is that linkage more intricate than in the airline business. Fuel prices, interest rates, currency swings, load factors, even political pitfalls – each risk has to be examined in light of the others.

Risks hardly ever travel alone.

To bring an element of stability to an industry that changes minute by minute, Bankers Trust has found a way of analyzing the airline business and attaching a monetary value to many of the operational risks it faces. A risk management plan that can turn volatility into profitability.

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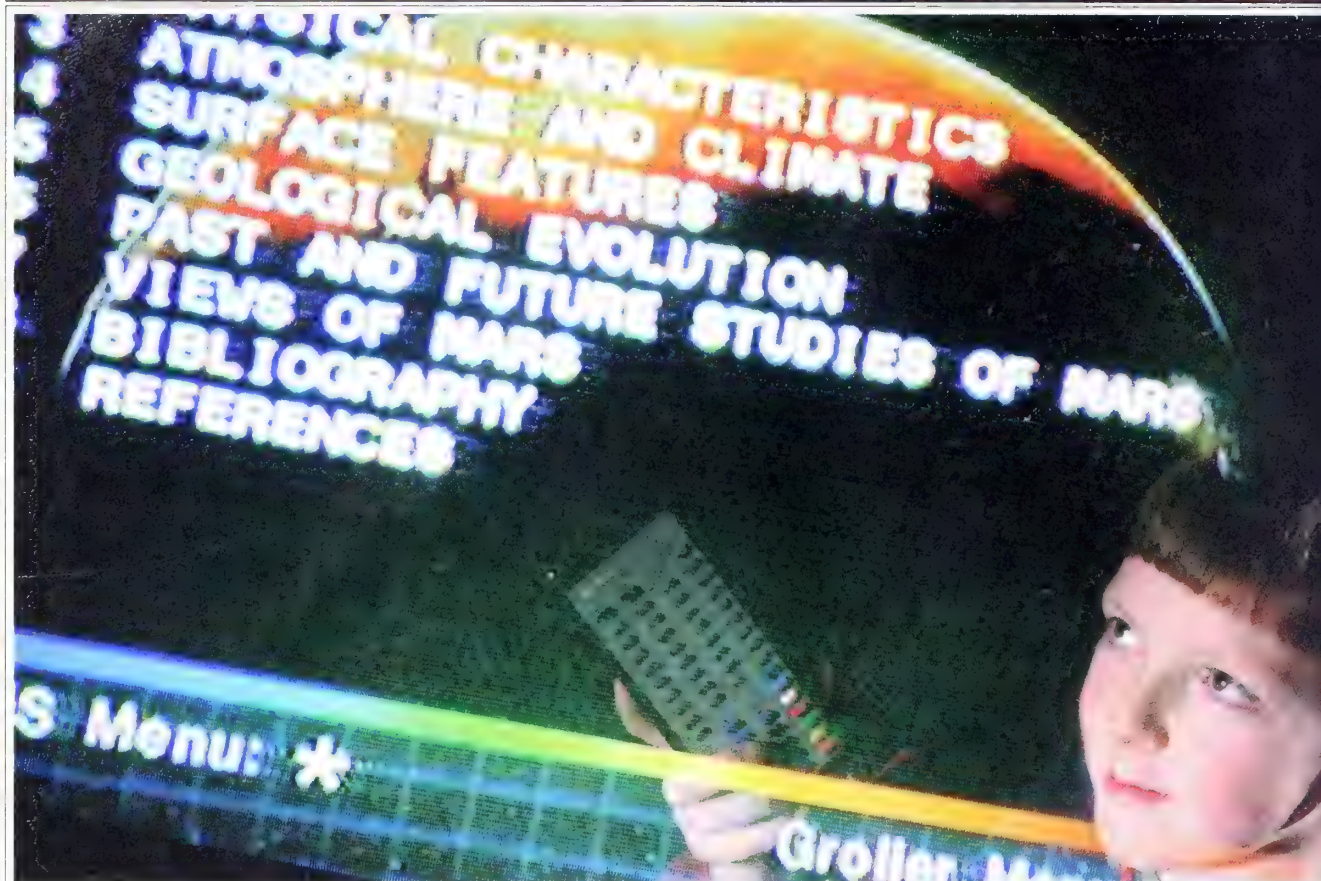


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LESSON-SURFING: HOMEWORK MAY BE LESS OF A CHORE FOR KIDS WHEN THEY DO IT ON GTE'S INTERACTIVE CABLE-TV CHANNEL, MAIN STREET

Special Report

80 THE LEARNING REVOLUTION

What's interactive, looks and feels like a video game, yet teaches kids reading and math? It's called "edutainment," and it's the latest buzzword in education. Edutainment is still in its infancy—and there are plenty of skeptics—but jazzy multimedia computers are already reinventing the way children learn, at home and in school. And demand for high-tech teaching tools is fueling a hot new industry. It's a revolution that may finally fulfill computers' educational promise and transform the rules of the classroom

84 ATOP THE "EDUTAINMENT" WAVE

Meet Jan and Bob Davidson, pioneers of educational software

86 A MULTIMEDIA CLASSROOM

How one school in Queens, N.Y., boost s scores for remedial students

88 COMMENTARY

Technology alone isn't enough to improve education

Top of the News

26 "WE'RE IN UNCHARTED WATERS"

The U.S.-Japan trade showdown could fundamentally change relations between the two nations

29 SMUG IN TOKYO

Japanese officials says Clinton won't be able drive a wedge between business and the bureaucracy

30 COMMENTARY

A little backbone against Japan Inc. may go a long way

31 COMMENTARY

Clinton must bring brains, not brawn, to bear on Japan

32 SUMMER AT THE SUMMIT

Redstone turns to selling the Viacom-Paramount-Blockbuster combo—and mending the bottom line

33 AND NOW FOR HIS NEXT BATTLE

Diller is too far down another warpath to weep for Paramount

34 SATURN'S WOBBLY ORBIT

A sudden slump has it beefing up ads, leases, and its dealer network

36 THE NEXT JUICY TAKEOVER PLUS

Managing pharmaceutical costs has made McKesson's PCs a hot item

38 WILL SOMEBODY GRAB THE RIN

Zale has been searching for a CEO for six months—so far

40 THE WOOING OF AMERICA WEST

The ugly-duckling airline is now a swan, with a bevy of suitors

43 A NOSE BACK IN NOTEBOOKS

Dell is out to reestablish its presence in the market

43 FOR WHOM GABELLI TOLLS

Growth-fund star Bramwell splits hang out her own shingle

47 IN BUSINESS THIS WEEK

Johnson & Johnson, Andrea, Banc One, WESCO, Borden's revolving door, Rebuild L.A., Pru Securities

International Business

50 AUTOS

As the world's carmakers rush into developing countries, they're redrawing the industry's map



A SLOW WAR OF NERVES:
NEITHER JAPANESE PRESIDENT
HOSOKAWA NOR PRESIDENT CLINTON
IS BUDGING—AND THE STANDOFF IS
IGNITING FEARS OF A TRADE WAR



96 AT HOME ABROAD:
SINCE CLOSED-END FUNDS HAVE A
FOREIGN ACCENT, A GOOD GUIDE
HELPS. SO HERE ARE THE DATA NEEDED
TO BE WEALTHY, WORLDLY, AND WISE



74 REVOLUTION AT SAMSUNG:
LEE KUN-HEE IS APPLYING LESSONS
LEARNED IN JAPAN AND THE U.S. TO
TURN HIS GIANT COMPANY'S
CULTURE UPSIDE-DOWN

Economic Analysis

ECONOMIC VIEWPOINT

Becker: Making gunmen gun-shy

ECONOMIC TRENDS

Unemployment, advanced degrees,
Canada's health plan, new markets

BUSINESS OUTLOOK

Beneath the ice, a warm economy

Government

WASHINGTON OUTLOOK

Labor and Clinton kiss and make up

People

FRIENDS OF WAYNE

Meet the in-group of investors
behind Boston Chicken, Blockbuster
Video, H₂O Plus...

Science & Technology

COMMENTARY

A little more government
supervision won't kill biotechnology

DEVELOPMENTS TO WATCH

Environment

DANCES WITH RANCHERS

As Interior Secretary, Bruce Babbitt
can't help but step on lots of toes

The Corporation

THINK FOR YOURSELF—OR ELSE

Samsung's boss is driving his
managers to take more initiative

78 TOUGH TIMES AT TYCO

Wretched results have Wall Street
talking takeover

Finance

90 TROUBLED MARCH TO PRETORIA

Serious setbacks for Steve
Goodwin's First South African Fund

94 INSIDE WALL STREET

How Dreyfus will round out Mellon
A very bad school report
Rising tide at Outboard Marine

119 INVESTMENT FIGURES OF THE WEEK



90 THE CASE AGAINST STEVE GOODWIN:
THE FUND MANAGER IS EAGER TO
PUMP INVESTMENT INTO A NEW
SOUTH AFRICA, BUT HE'S HAMPERED
BY HIS RECORD ON WALL STREET

Mutual Funds Scoreboard

96 THE BEST CLOSED-END FUNDS

Don't leap before studying these
vital data and ratings

Marketing

102 SHORING UP THE SHACK

Tandy does a fixup job at Radio
Shack, stressing high-margin gizmos
and more dollars from repairs

Legal Affairs

106 SLUGFEST IN THE SERVICE BIZ

A slew of lawsuits is opening the
aftermarket maintenance market

Personal Business

112 COMMODITIES: Futures—and risk

GOLF: Women link up on the links

SMART MONEY: Redemption fees

Features

6 UP FRONT

12 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

15 BOOKS

Garton Ash: *In Europe's Name:
Germany and the Divided Continent*

117 BUSINESS WEEK INDEX

118 INDEX TO COMPANIES

120 EDITORIALS

Why Japan must open up—and what
the U.S. must do

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

EXECUTIVE FOLLIES

TWA'S FRANTIC COCKPIT CHANGE

Nobody thought pulling ailing Trans World Airlines out of its tailspin would be easy. But a behind-the-scenes look at the nation's seventh-largest airline, which emerged from bankruptcy last summer and still shows red ink, indicates some of its wounds are self-inflicted.



Start with Chairman William Howard, who quit in January. The 72-year-old former head of Piedmont Airlines had a political problem with the new board at the Mt. Kisco (N.Y.) carrier. He had been appointed by the creditors' committees—namely, the consultants and lawyers representing the various classes of debtholders. But he rapidly lost the board's confidence, re-

ports a well-placed TWA veteran, adding he "didn't do much." Howard couldn't be reached for comment.

The drift under Howard is best illustrated by his hiring of consultant Mort Beyer, according to TWA employees. A prominent airline industry figure who worked with Howard at Piedmont, Beyer is known as "Big Bird" at TWA because of his height. Beyer, who earned some \$6,000 weekly, championed a high level of trans-Atlantic flights during the usually sluggish winter season. That lost the company bundles of money, so it stopped the experiment. Beyer left in November, but still defends his idea as sound.

TWA, though, has won plaudits for its Comfort Class service, which uses added leg room to lure customers. Under Howard's replacement, former Allstate Chairman Donald Craib, TWA predicts it will break even later this year.

Kevin Kelly

FUTURE SHOCK

AN ELECTRIC CAR WHOSE TIME HAS COME?

From Preston Tucker to John DeLorean, automotive history is rife with Henry Ford wannabes. Now comes a most unlikely auto entre-

TALK SHOW

Our current position demands brevity: They won. We lost. Next.

—QVC Chairman Barry Diller on rival Viacom's victory in the five-month takeover battle for Paramount Communications

PAPER PLAYS

'ABSOLUTELY A WASTE OF TIME FOR INVESTORS'

So Viacom captures Paramount Communications. The hindsight question: When was the best day to cash out your Paramount stock? An-



swer: It was better to have sold on Nov. 12, when it hit its high of \$83.50 rather than waiting to tender to Viacom in February. If you had reinvested the November payoff to match the Standard &

Poor's 500-stock index, you would have \$84.58 when the deal closed on Feb. 14 (chart). Even if you had sold out at \$77.50 on Sept. 21, when Network joined the fray, your investment on the same basis would be worth \$80. That's just a bit less than what Viacom's complex ca-

and-securities offer may prove to be worth. Gro PaineWebber analyst Chris Dixon, who values the offer at \$82.88: "It has absolutely been a waste of time for investors."

See, there's a guarantee for you will end up with \$82.88. That sum partly based on what the stock

should be fetching a year from now, when anything happens. If you believe in efficient markets, consider an easier way to value Viacom bid. Paramount closed at the Feb. 14 deal-day.

combustion engine is a du-

Rosen foresees a seismic technological shift letting new entrant compete in car biz. He's also counting Detroit not meeting California laws requiring 10% zero-emission cars by 2003. Another market: the Northeast, which may impose similar mandates.

Rosen says brother Harold will be CEO but won't disclose where the car will be built or how it will be distributed. "It's way too premature to discuss," he says. But he expects to have a power trip by yearend and the car on the road by 1996. His wife Alexandra, suggests calling the Rosen-Royce. John By



BEN ROSEN
A '96 law

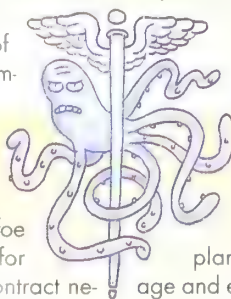
REALITY CHECK

CLINTONITES SAY their proposed regional "health alliances" will be low-key, service-oriented facilitators of a new, reformed health insurance market. Alliances will enroll consumers, give them their choice of health plans, collect premiums from em-

ployers and households, and distribute the funds with "a minimum of bureaucracy and expense," says White House health aide Walter Zelman.

The Administration insists that alliances won't mean a government takeover of health care.

IN REALITY, a close look at Bill Clinton's alliances reveals all the signs of giant, politicized bureaucracies. The Congressional Budget Office—no foe of Big Government—lists these roles for the alliances: "purchasing agents, contract negotiators, welfare agencies, financial intermediaries"—and on and on. The alliances will com-



mand funds rivaling most state budgets, so governors and legislators will want to maintain control over them. The CBO does say the Clinton plan will achieve universal health coverage and eventually slow medical spending—but makes it clear that the price will be a health system dictated by government. Mike McNamee

1

I'm a broker, I'm not a crapshooter.

2

I don't tell people what they want to hear. That wastes my time and theirs.

3

I think one of the best things a broker can say is, "My clients feel comfortable with me."

4

My clients feel comfortable with me.

5

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6

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Up Front

LISTS AND RATINGS

TARGETING THE TOP B-SCHOOLS

Rankings of business schools have long generated controversy, but rarely like the new one from a couple of economics professors, Joel Waldfogel at Yale University and Joseph Tracy at Columbia University. The duo ranks schools by the value they add to students' earning power.

Trouble is, the profs' own schools appear well back in the pack: Columbia ranks 23rd and Yale 63rd, dead last. By their reckoning, Oklahoma State University (No. 8) or the University of New Mexico (No. 9) add far more value to students than either Columbia or Yale. **BUSINESS WEEK** places Columbia ninth and Yale in its runners-up category (finishing between 20 and

40); Oklahoma State and New Mexico aren't among the magazine's top 40 schools.

Why the different results? The economists impute salaries for students based on their average scores on the Graduate Management Admission Test and work experience. Then, the economists compare that with average starting salaries, adjusted for cost-of-living differences, and the occupations chosen by graduates. The schools with the highest positive differences rank the highest.

Fortunately Waldfogel and Tracy don't teach in the B-schools but in the economics departments of their respective universities. Yale business school Dean Paul MacAvoy calls the ranking "nonsense," and says his students are smart enough to see that. "At least," he adds, "they're smarter than Waldfogel." The dean of Columbia's business school, Meyer Feldberg, would not comment. *Lori Bongiorno*

VALUE-ADDED B-SCHOOLS

THE TOP

- 1 STANFORD
- 2 HARVARD
- 3 CHICAGO
- 4 VIRGINIA
- 5 WHARTON
- 6 NORTHWESTERN
- 7 MICHIGAN

SOME ALSO-RANS

- 8 COLUMBIA
- 9 DARTMOUTH
- 10 YALE

DATA: JOEL WALDFOGEL, JOSEPH TRACY

EURO-MUDDLE

HOW'S THIS FOR MULTICULTURALISM?

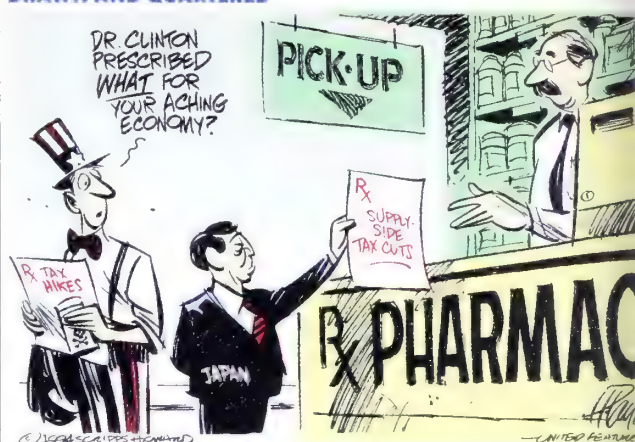


The 12-nation European Union is building its own army, called the Eurocorps, with three nations so far contributing troops—Germany, France, and Belgium. But the Eurocorps, aimed at giving Europe a force separate from

that of the U.S.-dominated NATO, is suffering from language and cultural difficulties.

Smaller and more tightly integrated than NATO forces, which operate with large units of one nationality, the Eurocorps has some units with troops from different countries. In the Eurocorps, which expects a troop strength of 45,000 by 1995, beer- and sausage-loving German grunts must tolerate a French cook. Belgian soldiers no longer get Dec. 6 off—their equivalent of Christmas Day. And there's an imbroglio over the Belgians' demand to translate tactical documents into Dutch, which many of them speak. It will get more complex this summer when Spanish troops join. *Patrick Oster*

DRAWN AND QUARTERED



MISMARKETING

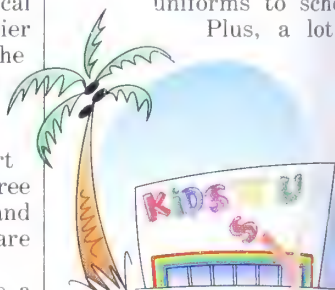
IN PUERTO RICO, KIDS 'R' NOT US

Kids 'R' Us, the fast-expanding clothing subsidiary of toy seller Toys 'R' Us, has seen its invasion of Puerto Rico wilt in the tropical sun. The children's clothier opened three stores on the island since late 1992, next to Toys 'R' Us outlets. But an uncharacteristically ill-conceived marketing effort led to poor sales, so the three outlets will be closed, and plans for five more are shelved.

Puerto Rico looked like a paradise for the Paramus (N.J.) company's clothing stores. Although the island trails even the poorest U.S. state in per capita income, retailers such as Kmart and

J.C. Penney prosper the Puerto Ricans spend 55% disposable income in retail stores vs. 43% on the mainland.

But analysts say the chain banked on back-to-school sales, not understanding that Puerto Rican kids all wear uniforms to school. Plus, a lot



the togs were too heavy for the climate. Jeff Handler, company's marketing director, says its centrally run operations missed on market tastes in Puerto Rico. *Douglas Z...*

THE BIG PICTURE

RENTAL ROUT

Office rents are way down since the 1980s peak, due to overbuilding—with the biggest drops on the coast. But in some markets, there are signs the worst is over.

YEAREND AVERAGE RENT FOR CENTRAL BUSINESS DISTRICTS



FOOTNOTES

Share of high school seniors who disapproved of moderate drinking in 1983: 18.4%. In 1988: 22.6%. In 1993: 30.1%

1

Your word is your bond.

2

Trust is measured by commitments kept... in business and in love.

3

I don't give a damn about a firm handshake. Confidence is earned in other ways.

4

To be successful, I think it is important to take risks.

5

I trust people who try to talk me out of unreasonable risks.

6

The people I trust most are not afraid to tell me the truth.

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IS AUTO LEASING HEALTHY FOR AMERICA?

I am a retired economist and businessman who has seen auto-sales terms progress from all cash (plus a bribe above price control) after World War II to 50% down and the balance in one year to ever less down and more payment time, until debts exceeded residual values. Despite this reckless credit strategy to "move the metal," there was always a clear-cut buyer and seller. In other words: A sale was a sale.

Nowadays, since Detroit can't dream up even easier credit schemes, it can't sell its cars—so it's renting them. They call it leasing. ("Leasing Fever," Cover Story, Feb. 7). In the old days, a car rental was not considered a sale. Yet you seem convinced that by some voodoo financing magic, production can be whisked from inventory to sales and voilà—we have a boom.

What worries me is who owns this inventory and what happens in the next cyclical downturn? Will lease-default losses hit the factory, the dealer, or a third party? I suspect Detroit will bear the brunt and leases won't be termed sales after the ensuing brouhaha.

Henry Fogel II
Lexington, Mass.

Leasing, whether of cars or other durable goods, has another benefit. By reclaiming the product, a manufacturer "closes the loop," reducing environmental impact while simultaneously creating customer loyalty and (potentially) improving quality and repairability.

If you take a product back, planned obsolescence is no longer a smart strategy. A durable product with classic styling retains more value, can be refurbished, and sold or leased again—and it is less likely to have a premature rendezvous with the shredder.

Smart manufacturers integrate leasing with "design for disassembly," making it easy and advantageously for makers to take back, disassemble, and sort the parts of their products. A number of durable parts such as alternators can be remanufactured and reused. Other

items can be recycled into new products. In an age of little consumer loyalty, tighter environmental regulation, short product-development cycles, and integrated licensing/design for disassembly, a strategy that brings the customer back pays off financially and environmentally. W. David Stephens
Medfield, Mass.

The arithmetic of auto leasing failed to bring out a very important point. There is generally no rebate for not using the allotted miles on a lease. A lease with \$250 a month for 24 months with 30,000 allotted miles comes to roughly 20¢ a mile. If one uses the car 10,000 miles a year for two years and returns the car, \$2,000 worth of mileage goes unused. A consumer may be better off buying the car and keeping it over a longer period of time if the annual mileage expected to be driven is much less than the allotted miles.

Santosh Nerurkar
Southfield, Mich.

DON'T LET CONSUMERS CRASH ON THE INFO SUPERHIGHWAY

The article "Yield signs on the Interstate" (Information Processing, Jan. 24) offers a good description of what almost everyone wants from a rush to overhaul the Communications Act of 1934. Everyone except, perhaps, the average American consumer.

What no one on Capitol Hill is talking about is whether consumers will have say in how they will access the Information Superhighway.

Will consumers have the right to choose whether to purchase their on-home equipment or be forced to accept the equipment selected for them by the service provider? Will consumers have the right to own home-communications equipment at all, and if so, the carrier be able to refuse service to customers who own competitive equipment? In a totally deregulated environment, some of the consumer protections we currently take for granted could be lost if the public does not speak out.

The experience of the competitive

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Every man over 50 should take this

PROSTATE TEST

Please answer the following questions:

YES NO

☐☐

Do you urinate often, especially during the night?

☐☐

Do you have trouble starting your urine stream?

☐☐

Do you have a weak or interrupted urine stream?

☐☐

Does it feel like your bladder isn't emptying completely?

If you answered "yes" to any question, you should see your doctor. You may be experiencing the symptoms of a condition called benign prostatic hyperplasia (BPH), which is an enlargement of the prostate gland.

Affecting one out of three men over the age of 50, symptomatic BPH can be caused by a *tightening* of muscles inside the prostate. These tightened muscles can slow the flow of urine, leading to the kinds of urinary symptoms described above.

There are three basic treatment options for symptomatic BPH: "watchful waiting," which entails having regular checkups over time; surgery; and medication.

HYTRIN: A New Treatment Option

HYTRIN is a once-a-day medication that can rapidly treat bothersome BPH symptoms. HYTRIN works by *relaxing* the

muscles that have tightened in the prostate, increasing urine flow and decreasing urinary symptoms. With HYTRIN, you can see improvement in 2 to 4 weeks.

HYTRIN can cause a sudden drop in blood pressure at the beginning of treatment (or if you miss doses and then start taking the medication again). You may feel dizzy, faint, or "light-headed," particularly after getting up from a chair or bed.

If you have any urinary symptoms, see your doctor. Only your doctor can properly diagnose symptomatic BPH (or other conditions such as prostate cancer).

And, only your doctor can treat your bothersome BPH symptoms with HYTRIN. For **FREE** information on symptomatic BPH and HYTRIN, please call **1-800-477-7778**

Please see
patient information
on adjacent page.

ASK YOUR DOCTOR
TODAY ABOUT

HYTRIN
(terazosin HCl)



HYTRIN[®]

(terazosin HCl)

PATIENT INFORMATION ABOUT HYTRIN[®] (HI-TRIN)

Generic Name:
terazosin (ter-A-zo-sin)
hydrochloride

When used to treat
BENIGN PROSTATIC
HYPERPLASIA (BPH)

Please read this leaflet before you start taking HYTRIN. Also, read it each time you get a new prescription. This information should NOT take the place of a full discussion with your doctor. You and your doctor should discuss HYTRIN and your condition before you start taking it and at your regular check-ups.

HYTRIN is used to treat benign prostatic hyperplasia or BPH. HYTRIN is also used to treat high blood pressure (hypertension). This leaflet describes HYTRIN only as a treatment for BPH.

What is BPH?

The prostate is a gland located below the bladder. It surrounds the urethra (you-REETH-rah), which is a tube that drains urine from the bladder. BPH is an enlargement of the prostate gland. The symptoms of BPH, however, can be caused by an increase in the tightness of muscles in the prostate. If the muscles inside the prostate tighten, they can squeeze the urethra and slow the flow of urine. This can lead to symptoms such as:

- a weak or interrupted stream when urinating
- a feeling that you cannot empty your bladder completely
- a feeling of delay when you start to urinate
- a need to urinate often, especially at night, or
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- Program of monitoring or "Watchful Waiting". Some men have an enlarged prostate gland, but no symptoms, or symptoms that are not bothersome. If this applies, you and your doctor may decide on a program of monitoring including regular check-ups, instead of medication or surgery.
- Medication. There are different kinds of medication used to treat BPH. Your doctor has prescribed HYTRIN for you. See "What HYTRIN does" below.
- Surgery. Some patients may need surgery. Your doctor can describe several different surgical procedures to treat BPH. Which procedure is best depends on your symptoms and medical condition.

What HYTRIN does

HYTRIN relaxes the tightness of a certain type of muscle in the prostate and at the opening of the bladder. This may increase the rate of urine flow and/or decrease the symptoms you are having.

- HYTRIN helps relieve the symptoms of BPH. It does NOT change the size of the prostate, which may continue to grow. However, a larger prostate

tombs.

• If HYTRIN is helping you, you should notice an effect on your particular symptoms in 2 to 4 weeks of starting to take the medication.

• Even though you take HYTRIN and it may help you, HYTRIN may not prevent the need for surgery in the future.

What you should know while taking HYTRIN for BPH

WARNINGS

HYTRIN Can Cause A Sudden Drop in Blood Pressure After the VERY FIRST DOSE. You may feel dizzy, faint, or "light-headed" particularly after you get up from bed or from a chair. This is more likely to occur after you've taken the first few doses, but can occur at any time while you are taking the drug. It can also occur if you stop taking the drug and then re-start treatment.

Because of this effect, your doctor may have told you to take HYTRIN at bedtime. If you take HYTRIN at bedtime but need to get up from bed to go to the bathroom, get up slowly and cautiously until you are sure how the medicine affects you. It is also important to get up slowly from a chair or bed at any time until you learn how you react to HYTRIN. You should not drive or do any hazardous tasks until you are used to the effects of the medication. If you begin to feel dizzy, sit or lie down until you feel better.

- You will start with a 1 mg dose of HYTRIN. Then the dose will be increased as your body gets used to the effect of the medication.
- Other side effects you could have while taking HYTRIN include drowsiness, blurred or hazy vision, nausea, or "puffiness" of the feet or hands. Discuss any unexpected effects you notice with your doctor.

Other important facts

- You should see an effect on your symptoms in 2 to 4 weeks. So, you will need to continue seeing your doctor to check your progress regarding your BPH and to monitor your blood pressure in addition to your other regular check-ups.
- Your doctor has prescribed HYTRIN for your BPH and not for prostate cancer. However, a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue even if you are taking HYTRIN. HYTRIN is not a treatment for prostate cancer.
- About Prostate Specific Antigen (PSA). Your doctor may have done a blood test called PSA. Your doctor is aware that HYTRIN does not affect PSA levels. You may want to ask your doctor more about this if you have had a PSA test done.

How to take HYTRIN

Follow your doctor's instructions about how to take HYTRIN. You must take it every day at the dose prescribed. Talk with your doctor if you don't take it for a few days, you may have to restart it at a 1 mg dose and be cautious about possible dizziness. Do not share HYTRIN with anyone else; it was prescribed only for you.

Keep HYTRIN and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT HYTRIN AND BPH, TALK WITH YOUR DOCTOR, NURSE, PHARMACIST OR OTHER HEALTH CARE PROVIDER.

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 **Abbott Laboratories**
North Chicago, IL 60064

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CORRECTIONS & CLARIFICATION

Because of a production error, two of copy were missing from "Bill Gates inundated in box" (Up Front, Feb. 7). The affected sentence should have read: "In his e-mail to the magazine writer John Seabrook, Gates discoursed on the future of the Information Superhighway and his analysis of F. Scott Fitzgerald's *The Great Gatsby*."

"Crunch time in Russia" (International Business, Feb. 7) should have said the dollar equivalent of the government's 4 trillion-ruble bailout for agriculture is \$2.58 billion.

consumer-electronics market proves when consumers have access to commercially available equipment, the quality, style, and features of products increase and the prices decrease. Consider the highly competitive telephone equipment and personal-computer markets with the current cable industry, where many consumers are forced to access the network through unsightly set-top cable boxes, which also disable many features of their TVs and VCRs.

Congress should be lauded for its efforts to update communications regulations, but it will be a mistake if legislation does not include basic consumer-rights principles earned over the past decade.

John V. Ro
Chairman and
Tandy Co.
Fort Worth

LET US NOW PRAISE EARTHQUAKE CAPITALISM

As we well know, it's the goal of American business to find a niche and market to it. In response to your "10 for water! What's the catch?" (Up Front, Feb. 7) article, I argue that the people accused of "price gouging" are merely engaging in capitalism, be it the cost of others. If the market will bear \$10 for a gallon of water, then be it.

If one is to compete and gain a share of that market, then there certainly room to move in pricing. Those who planned ahead, as warned, didn't have to pay the high prices. As told to me several years ago: "A lack of planning your part does not constitute an emergency on my part."

C. Jason Mance
San Bruno, Ca

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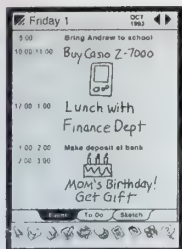
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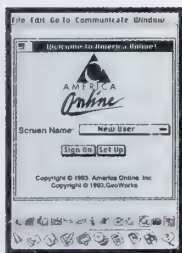
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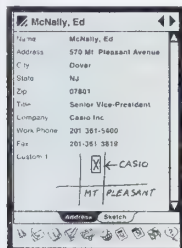
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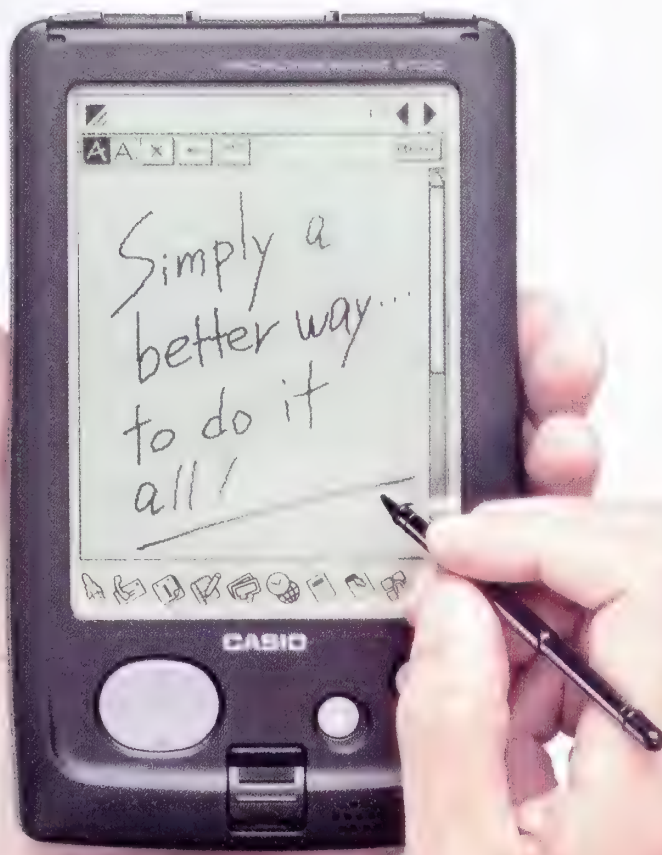
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ILL THE REAL GERMANY EASE STAND UP?

he trouble with the Germans, Napoleon once remarked, is that they are always becoming, never being. Centuries later, as Germany grapples with the huge political, economic, and social consequences of reunification, insight is as pertinent as ever.

Today, some fear that united Germany, big, rich, and powerful—may yet run amok in Europe. Others think that it is becoming so enmeshed in its problems that it will remain an economic giant but a political dwarf. Uncertainty at the core is begetting

the continent of neurotic nationalism caught in an identity crisis. One result: Europe's painful inability to deal with the tragedy of the former Yugoslavia.

In his new book, *In Europe's Name: Germany and the Divided Continent*, historian Timothy Garton Ash attempts to draw lessons from recent history and use them to shape the future. He begins his epilogue "Euro-Answers?" and the question mark is significant. He warns against excessive optimism that any will be a model European citizen, as its risks claim.

The heart of the book is a scholarly examination of Ostpolitik, the policy by which West Germany sought to restore full sovereignty and to reunify on its terms. (Chancellor Konrad Adenauer, for example, declined Josef Stalin's 1952 offer to reunite Germany provided it became neutral.) Nonspecialists would not be deterred. Garton Ash, who had unrivaled access to many of the principals as well as to such documentary gold mines as the East German Stasi secret police files, tells a readable story of a coherent policy pursued consistently over several decades, regardless of the stripe of the government of the day.

Irrevocably linked with Ostpolitik is Chancellor Willy Brandt, who was governor of Berlin when the Wall fell in 1961. Within a few years,

he and such Berlin statehouse chums as Egon Bahr quietly set out to bring it down. By 1967, Brandt was in Bonn as Foreign Minister with Bahr as a top aide, and Ostpolitik was in place.

The essentials: Build the trust of the Soviets and develop relations with the German Democratic Republic and Eastern Europe. Diplomacy, in the form of treaties and theater—Brandt's kneeling in the rain at a Polish war memorial comes to mind—was deployed with skill and persistence. And courage: Some steps raised firestorms of protest at

The author warns
against excessive
optimism that a
unified Germany will
be a model citizen

IN
EUROPE'S
NAME
Germany and
the Divided
Continent
TIMOTHY
GARTON
ASH

home among Germans expelled from the East, who at one point were 20% of the electorate. The attractions of the peaceful, democratic, and prosperous Federal Republic were also subtly projected to those under Soviet rule.

But the touch of genius was promoting the whole enterprise as one undertaken in Europe's name. Garton Ash recalls Henry Kissinger's remark that Bahr was a delight to deal with because he always had a hidden agenda. Indeed, despite its Euro-clothing, Ostpolitik was all along the dedicated pursuit of German national interests. Not that Germany's commitment to a united Europe was insincere. Rather, as a later Foreign Minister, Hans-Dietrich Genscher, put it: the more European, the more national.

Although generally seen as a geopolitical pygmy, Germany was in fact a quiet

big-league player. It used its economic clout effectively, finally paying the Red Army to leave. Most important, the country's leaders invented a sort of diplomatic judo—using feints and pretended weakness to throw off far larger adversaries. Reuniting meant overturning Yalta, the pact among World War II's victors that enshrined Europe's east-west divide. That required marshalling the active help of the U.S. During the endgame, events moved so quickly that the British, French, and even the Soviets—all of whom tried to slow reunification—didn't realize they were floored till they heard the thud.

At times, though, German policymakers were too clever by half. The cachet of moving in the corridors of global power blinded them to the "people power" with which courageous East Europeans applied their own jujitsu to Soviet might. And when the Wall did finally fall, all the propaganda about the attractions of the West reaped a huge and uninvited harvest of economic refugees.

The ultimate paradox of Ostpolitik lies in its very success. Precisely because it so changed the world, it left no reliable guideposts for dealing with the situation it created. When German Foreign Minister Genscher persuaded the rest of Europe to recognize Croatia, for example, he undoubtedly contributed to Yugoslavia's tragic dynamic. His error was drawing a facile parallel between Germany's right to self-determination and

Croatia's.

Garton Ash's analysis suggests that politicians may be prone to more such mistakes. The author argues convincingly that the events of 1989 demolished not just Yalta but also the Europe of Versailles—the peace settlement following World War I.

In short, the clock was turned back further than most people imagine. That helps explain the risk of Europe reverting to neotribalism in the Balkans and elsewhere, the rise of Russian nationalism based on age-old fears of encirclement, and the inability of Europe's leaders to quickly formulate a viable new political order. Unfortunately, they may have to wait until today's Germany tells us who and what it is.

BY JOHN TEMPLEMAN

Templeman heads *BUSINESS WEEK's* Bonn bureau.



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STIFFER JAIL TERMS WILL MAKE GUNMEN MORE GUN-SHY

BY GARY S. BECKER



Heftier taxes won't work; deterrence will. Make additional jail time mandatory for criminals who use guns, so that little discretion is left to judges, juries, and prosecutors

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

Gun control is a highly divisive issue that pits citizens who believe that the right to own guns for legitimate purposes is constitutionally guaranteed against those who want to sharply reduce the number of guns in circulation. But it is both desirable and possible to cut down on the guns in the hands of thugs and criminals without curtailing the right to own guns for other purposes.

An effective gun-control policy must try to deter the use of guns to commit crimes and to intimidate at school and elsewhere. The best way to do this is for states to impose a stiffer punishment on miscreants who use guns for criminal ends. A jail sentence—or additional time—should be added to the usual punishment for a crime if guns are involved.

If the normal punishment for robbery is a year in jail, for example, this sentence might be doubled, to two years, when guns are involved. The punishment for using guns could depend on the severity of the crime, whether the gun was fired, and even on whether it was likely to be fired.

Many gun-control advocates shrink from reliance on imprisonment and other punishments for the use of guns to commit crimes because these seem too indirect and uncertain to be effective deterrents. But considerable evidence, summarized by James Q. Wilson and Richard J. Herrnstein in their *Crime and Human Nature*, indicates that greater certainty of apprehension and conviction is an effective deterrent to robbery and most other serious crimes. For this reason, I have advocated much greater spending on police and courts to increase apprehension of criminals and expedite their conviction (BW—Nov. 29).

CLEAR SIGNAL. To increase the certainty of punishment for criminal use of guns, it may be desirable for states to mandate the extra jail sentences, so that little discretion is left to judges, juries, and prosecutors. A rapidly growing number of states require additional punishments when guns are involved. True, some federal judges have criticized the mandating of sentences for federal crimes such as drug sales or white-collar crime, but a state mandatory term sends a clear signal about the risk of using guns to perpetrate crimes.

Harsher punishment for those who use guns to commit crimes does not penalize ownership of guns by shopkeepers and others who are vulnerable to criminal attacks. In the confrontation between criminals and their prey, this approach to gun control deals potential targets a better hand.

A heavy tax on gun sales or on the purchase of ammunition—as proposed recently by

Senator Daniel P. Moynihan (D-N.Y.)—does not punish the use of guns. It just raises the cost of acquiring and loading them. Such taxes would not only reduce the demand for guns by shopkeepers and others who buy them legally, but they make it that much cheaper to acquire them illegally. Although these taxes have no direct effect on criminals, who buy their weapons on the underground market, they do have bad indirect effects. Taxes make guns and ammunition more—not less—readily available to criminal elements because more guns and ammunition will be siphoned off in the underground economy by people seeking to evade the taxes on legal sales.

LESS RESISTANCE? Even if taxes didn't increase the number of guns in the hands of criminals, they tend to raise the incidence of crime. Overall, criminals will expect less armed resistance from shopkeepers and homeowners. Lower taxes reduce purchases of guns by people who want to defend themselves.

Some states require that all weapons be registered, and Congress recently passed the Brady Bill, which mandates a week's delay before applications to buy guns can be approved. Officials can use the delay to check an applicant's background for criminal record and other problems. Such procedures are worthwhile because they may cut down on impulsive gun purchases that lead to violence.

But they do little to keep guns out of the hands of teenagers and criminals who obtain their weapons underground, where guns are sold to anyone who can pay for them. This is the route by which arsenals of weapons have found their way into inner cities and elsewhere in the U.S. Guns continue to be smuggled onto the illegal market from abroad, from military stock, and from crooked gun dealers.

In other words, the fatal difficulty in relying only on registration and approval is that there are two almost completely discrete markets for weapons. The legitimate market caters to people who want guns for hunting and for protection against holdups and burglaries. The underground market caters to criminals who want weapons to help them steal, intimidate, rape, participate in gang warfare, and sell drugs. Cooling-off periods and other controls on gun sales in the legitimate market have little effect on the underground market that ignores them.

The right approach to gun control can gain widespread agreement and would not be subject to the bitter controversies that plague other approaches to this issue. This one supports registration and cooling-off periods, but it relies mainly on punishing those who use guns for crime and intimidation.

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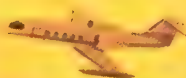
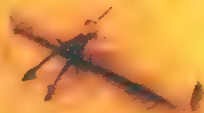
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NEC

EDITED BY MICHAEL J. MANDEL

MORE AND MORE, JOBLESSNESS WEARS A BUSINESS SUIT

The Clinton Administration's Council of Economic Advisers (CEA) has issued its first annual *Economic Report of the President*, and the turquoise-colored, 398-page tome offers intriguing analysis of the U.S. labor market, where unemployment is down, yet workers are still worried about their jobs.

The report considers the puzzle of why the recent downturn has been called a "white-collar recession" even though the unemployment rate for white-collar workers is still one-third that for blue-collar workers. The answer: The white-collar jobless rate relative to the blue-collar rate is dramatical-

ly higher now than it was in the early 1980s, and the ratio keeps rising (chart). Even while the fortunes of some white-collar workers have worsened, the CEA laments the growing income differences between well-educated workers and their less-educated counterparts. White-collar workers who have kept their jobs have benefited mightily from the greater importance of skills and education, while the undereducated have fallen behind. The report also notes "increasing disparities between black and white rates of both employment and unemployment," which may be helping to widen the distribution of income.

By Paul Magnusson in Washington

A MASTER'S IS WORTH A MINT IN THE WORKPLACE

While the CEA report is rightly concerned with the widening earnings gap between people with college degrees and those with high school diplomas, the report seems to have missed the yawning income difference between workers with advanced degrees and the rest of the labor force. Based on the latest report on income from the Census Bureau, average annual earnings in 1992 for full-time male workers with advanced degrees—a master's degree, doctorate, or professional degree—was some \$64,000. That's \$18,000 more than the average holder of only a college degree.

What's more, workers with advanced degrees have a near-majority of the highest-paying jobs. While only about 9% of the work force has advanced degrees, they hold 44% of the jobs that pay over \$75,000. That may explain why applications to graduate schools continue to stay strong.

CANADA'S HEALTH PLAN GIVES EMPLOYMENT FIGURES A ROSY GLOW

In the fierce debate over how to reform the \$1 trillion health industry, the idea of adopting a national health insurance plan along the lines of Canada's "single-payer" system has existed only on the fringes of policy discussions. The proposal recently got a surprising boost when the American College of Surgeons called for a single-payer system, arguing it would preserve freedom of patient choice and would be administratively simpler. Still, even support from a group of doctors won't convince policymakers who fear that the need to finance national health insurance would force companies to cut jobs.

Those worries, however, may be eased by a recent study of the job im-

pact of national health insurance in Canada, which was phased in during the late 1960s and early 1970s. Economists Jonathan Gruber and Maria Hanrahan of the National Bureau of Economic Research found that as NHI was adopted, employment increased by about 2%. Moreover, wages rose as well. Their search also suggests that the employment gains were permanent, rather than simply a short-run adjustment.

Why the positive labor-market impact? The two authors suggest the single-payer system raises labor productivity by improving the health of workers and increasing their job mobility. Higher labor productivity, in turn, makes companies more willing to hire workers.

By Christopher Farrell in New York

INVESTING IN EMERGING MARKETS: HOW MUCH IS ENOUGH?

Two words are mesmerizing investors from Wall Street to Rodeo Drive: emerging markets. For intrepid investors, emerging markets such as China and Indonesia are a golden opportunity to make money in the world's fastest-growing regions, while others shun the siren calls of greater returns because they are scared by the higher risks.

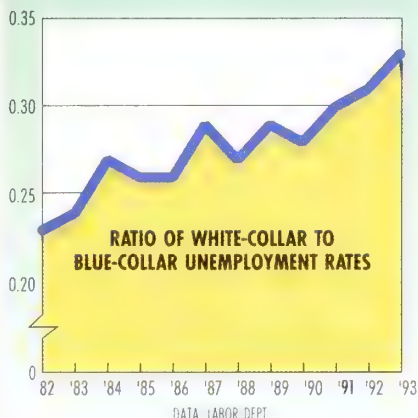
Still, even cautious investors can reduce the overall risk of their portfolio by investing in emerging markets. Since investment returns in different countries do not move in tandem, the volatility of a portfolio which includes stocks from other countries can be lower than one composed of just U.S. stocks.

But how much diversification makes sense? Leila Heckman and Holly Sze, two global asset allocators at Smith Barney, Shearson Inc., constructed 11 sample portfolios, ranging from one invested 100% in U.S. stocks to one invested completely in eight major emerging markets. They found that from January 1985, to November, 1993, a portfolio made up of 70% U.S. stocks and 30% emerging markets was less volatile than an all-U.S. stock portfolio. Moreover, the diversified portfolio had an annual return of 19.3% over this period, significantly higher than the 14.8% rung by the domestic portfolio.

Heckman and Sze found that the less risky portfolio combined 20% emerging markets with 80% U.S. stocks. Of course, for the strong of heart, the riskiest portfolio was 100% emerging markets, which had the best returns but also the biggest market swings.

By Christopher Farrell in New York

TOUGHER TIMES FOR WHITE-COLLAR WORKERS



ly higher now than it was in the early 1980s, and the ratio keeps rising (chart).

Even while the fortunes of some white-collar workers have worsened, the CEA laments the growing income differences between well-educated workers and their less-educated counterparts. White-collar workers who have kept their jobs have benefited mightily from the greater importance of skills and education, while the undereducated have fallen behind. The report also notes "increasing disparities between black and white rates of both employment and unemployment," which may be helping to widen the distribution of income.

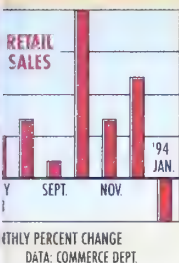
Still, the CEA is skeptical of the claim that the U.S. is stuck with a large pool of obsolete and permanently unemployable workers because of changing skill requirements, corporate downsizing, and defense cuts. True, the length of unem-

THE ECONOMY IS PLENTY WARM BENEATH THE ICE

If you're suffering from a severe case of cabin fever, you're not alone. The onslaught of ice, snow, and cold has made this winter the most maddening in recent memory—even without the excessive churning of the Kling-Kerrigan soap opera.

Earlier this quarter, the first few storms showed little impact on the economy. Now, however, after 12 storms along the East Coast, business activity is frostbitten, especially in retail trade and housing. Last month turned out to be the 15th wettest and third coldest January in the 99 years, according to the Commerce Dept.

WEATHER FREEZES OUT SHOPPERS



But while the duration of the harsh weather may be curtailing some economic growth this quarter, the underlying fundamentals are still sturdy. In fact, Dun & Bradstreet Corp. reports that business expectations for first-quarter sales and profits rose a bit from the fourth quarter. Manufacturers were especially upbeat. And the National Federation of Independent Business

SETBACKS WILL BE MADE UP LATER

optimism among small-business owners jumped in January. All this suggests that the economy will bounce back when the weather returns to normal.

The weather, however, has already taken its toll on retailers and builders. Retail sales fell 0.5% in January—derailing a string of nine consecutive increases—and housing starts plunged 17.6% (charts). The retail losses are evident in weather-sensitive areas such as building materials, restaurants, and auto dealers.

The good news for the economy is that the drop in retail sales does not mean consumer spending is falling this quarter. December buying was revised sharply higher, meaning that sales began the first quarter above their fourth-quarter average. Also, demand for services—from dry cleaning to emergency-room visits—is experiencing a weather-related gain.

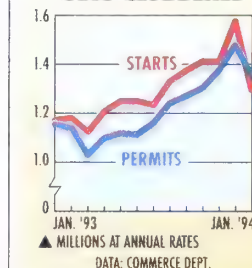
In addition, consumers will eventually buy most of what they didn't purchase in January. However, the continued bad weather in February suggests that this postponed spending will come later in the first quarter. The *Nation's Redbook* survey of department and chain stores says that sales in the first two weeks of this month were down 1.8% from January.

So, too, the drop in housing starts is a temporary setback. Starts plummeted to an annual rate of 1.29 million in January, the lowest since July and the largest decline in a decade. Starts tumbled 33% in the Northeast, 22% in the South, and 23% in the Midwest.

The latest news from mortgage bankers and realtors shows that housing activity will rise as soon as the temperatures do. Home-mortgage applications hit a record high in early February, and housing affordability also was the best on record in the fourth quarter. The continued strength in housing demand explains why permits to begin new construction in January fell by just 7.9%, far less than the decline in actual starts.

Even when the weather becomes more hospitable, though, the economy may face more turbulence. The new wrinkle is a weaker dollar. After the disastrous trade summit between President Clinton and Prime Minister Morihiro Hosokawa on Feb. 11, the dollar plunged 4% against the yen on Feb. 14, to 102.25, before rebounding to 103.80 yen on Feb. 16 (page 26).

HOUSING ALSO GETS CLOBBERED



One threat to the U.S. economy from all this is in the financial markets. Bond traders are worried that the Japanese may dump their holdings of dollar-denominated assets, especially U.S. Treasuries. That would depress bond prices, and push up long-term interest rates.

Moreover, the dollar fell against all major currencies, not just the yen. The Federal Reserve, which has already hiked interest rates once, now faces the inflationary potential of a weaker dollar. Fears of higher short-term rates are already lifting long-term yields, and a further rise in long rates will hurt the economy much more than the drag from our \$60 billion trade deficit with Japan.

FACTORIES STILL HAVE PLENTY OF ZIP

Nature's fury also buffeted the nation's factories in January. The weather, plus the California earthquake, substantially limited output growth last month, especially in steel, appliances, and motor vehicles, according to the Federal Reserve's report on industrial production. However, rising orders and low inventories mean sturdier output gains in the coming months.

Mother Nature distorted the January output data in opposite directions. Overall industrial production at factories,

Business Outlook

utilities, and mines rose 0.5%, but manufacturing output alone increased a slim 0.2%, after gains averaging 0.9% in the fourth quarter. At the same time, a burst of demand for heat boosted utility production by 3.5%.

The momentum that manufacturing developed last quarter should reassert itself in coming months, with continuing lifts from housing-driven demand for consumer durables, strong vehicle sales, and the investment boom in high-tech equipment. Business-equipment output still jumped 1.3% in January, despite the weather.

In addition, auto and truck production is set to increase strongly. Carmakers have upped their February and March plans, more than making up for lost time in January.

A big plus in the outlook for factory output is very low inventories, especially in manufacturing (chart). Total stock levels of manufacturers, wholesalers, and retailers were unchanged in

LOW INVENTORIES WILL FUEL OUTPUT



December, but business sales rose 0.8%.

That combination pulled the ratio of inventories to sales down to 1.43—the lowest in the 13-year history of the data. Even after adjusting for inflation, the real ratio is at a five-year low. And because bad weather hit both sales and output in January, weaker retail buying last month is unlikely to cause an inventory overhang that would cut into new orders.

ALL QUIET ON THE INFLATION FRONT

The really good news in the factory sector's outlook, however, is that its momentum is not generating worrisome pressures on inflation.

For example, the producer price index for finished goods rose only 0.2% in January. The core PPI—excluding energy and food—increased a faster 0.4%, but unusually

large one-month advances in tobacco and car prices counted for half of the rise. The annual inflation rate both indexes is about zero.

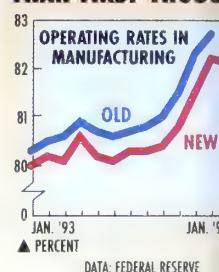
Moreover, it may stay there for a while, even as capacity utilization rates creep toward the point where production bottlenecks have generated price pressures the past. The industrial operating rate climbed to 83.1% in January from 82.9% in December, while the rate in manufacturing dipped to 82.1% from 82.2%, reflecting the output weakness caused by the cold and the quake.

However, industry has a bit more idle capacity than previously thought. The Federal Reserve estimates that production capacity has grown slightly faster than in its earlier reports, resulting in a downward revision in the capacity utilization rate (chart). For example, the new rate in manufacturing in December is 0.5 percentage point lower than before. And because of the ongoing surge in equipment investment, available capacity may still be underestimated.

More important, though: Operating rates are becoming increasingly unreliable as a guide to nascent price pressures. Stunning productivity growth in manufacturing recent years allows higher U.S. rates of capacity utilization without generating inflation. Also, there remains plenty of idle capacity abroad, including foreign operations of U.S. companies. All this suggests that the inflation flashpoint for operating rates, historically in the 83%-to-85% range, is now higher than it was before.

So as you cuddle up on the sofa watching *Tonya* and *Nancy*, and waiting for deliverance from this never-ending winter, here's one thought to keep you warm: Even as the economy begins to thaw out in coming months, inflation should stay frozen.

MORE IDLE CAPACITY THAN FIRST THOUGHT



THE WEEK AHEAD

CONSUMER CONFIDENCE

Tuesday, Feb. 22, 10 a.m.

The Conference Board's index of consumer confidence is forecast to rise to 83.2 in February, unchanged from its January reading. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The icy weather has kept consumers from shopping, but it hasn't dulled their optimism about the economy.

DURABLE GOODS ORDERS

Thursday, Feb. 24, 8:30 a.m.

New orders taken by durable goods manufacturers probably rose by 1% in January, led by stronger auto demand. If

so, it would be the sixth straight large gain in orders, including a 2.1% advance in December. The January rise is suggested by the 0.6% increase in durable goods output. Bad weather, however, likely prevented factories from shipping out goods. The MMS survey expects a 0.5% drop in shipments in January, after a 2.3% increase in December. Fewer shipments along with the rise in demand suggest the backlog of unfilled orders should increase by 1% in January, after falling for 10 consecutive months.

FEDERAL BUDGET

Thursday, Feb. 24

The U.S. Treasury will probably report a \$7 billion surplus in January. The sur-

plus was a much higher \$29.8 billion in January, 1993, but that was caused by some expenditures shifted into December, 1992. So far in fiscal 1994, the deficit is running about \$11 billion below year-ago total. The deficit for all of 1994 is expected to be about \$235 billion, down from \$255 billion in 1993.

EXISTING-HOME SALES

Friday, Feb. 25, 8:45 a.m.

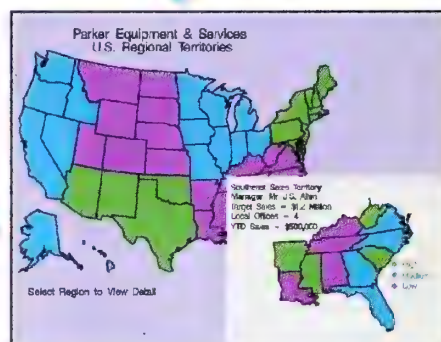
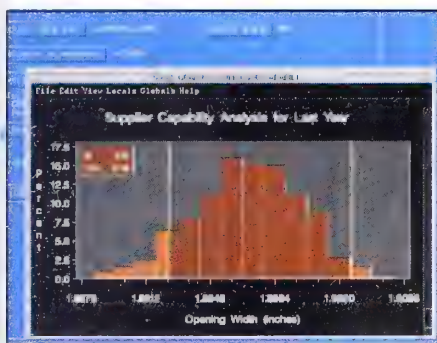
Existing-home sales probably fell to an annual rate of about 4 million in January, from a record 4.49 million in December. The bitter weather last month likely delayed house-closings across much of the country. However, demand for housing should bounce back.

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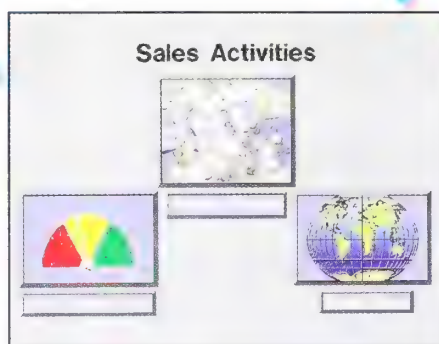


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TOUGH TALK

ARE THE U.S. AND JAPAN HEADED FOR A TRADE WAR?

The die was cast three weeks before President Clinton and Japanese Prime Minister Morihiro Hosokawa met for a fateful Feb. 11 White House showdown over U.S. access to Japanese markets. At an impromptu Cabinet meeting, Clinton's five trade negotiators had given him unanimous counsel on how to handle the encounter. If Hosokawa refused to agree to measurable standards for opening Japan's shuttered markets, they instructed, Clinton should just walk away from the table.

On Feb. 1, U.S. Trade Representative Mickey Kantor and W. Bowman Cutter, deputy director of the National Economic Council, were sent by Clinton

to Tokyo to give Hosokawa advance word of the impending confrontation. Hosokawa shrugged off the warning, though, and the Japanese offered last-minute token concessions: They would agree to loosen the hospital-equipment and insurance markets eyed covetously by the U.S. The Clintonites' reply: "Not enough."

So when Hosokawa sat down in the Oval Office for what turned into an hour-long debate, both leaders got right

to the point. Without raised voices or cross words, they admitted they were at an impasse. After Hosokawa complained at length that the U.S. approach violated free-market principles, an exasperated Clinton leaned forward and said, "We may be so far apart that there is not much more to discuss now. You might want to take a pause to reflect." **"WE WANT RESULTS."** With those words, the U.S. and Japan embarked on their most serious trade dustup since the postwar era. Word that the "framework" talks had collapsed ignited fears of a trade war between the world's largest economy and the most aggressive exporter. If nothing else, the relationship between the two superpowers has changed fundamentally. "We're heading for a clean break from the past here," Kantor told BUSINESS WEEK. "The Japanese insist their markets are open. They are not. No more business as usual. We want results."

While the Administration is talking tough and threatening retaliation, the real policy is more measured. The Clintonites are opting for a slowly escalating war of nerves that, they think, will lead Tokyo to back down before things get out of hand. The goal: to turn Japan away from endless accords that never improve market access and force it to commit to specific, measurable actions that will boost foreign imports.

Clinton believes that with the cold war over, economics can replace national security as the paramount issue defining

WITH THE COLD WAR OVER, PRIME MINISTER

HOSOKAWA FEELS THAT JAPAN CAN



FINALLY SAY "NO" TO THE U.S.

Washington-Tokyo relations. Hosoda, conversely, senses that in a less atening world, Japan can finally say "It's two different philosophies of le finally confronting each other," Robert D. Hormats, vice-chairman oldman Sachs International. "There o longer any compelling argument to h agreement."

hile U.S. exporters generally sup- the Administration's new line, they nervous about the consequences. "I k it worries everybody," says Donald ites, CEO of Caterpillar Inc. "Japan the U.S. are major trading part- s, and any disruption in two-way e would be detrimental to both tries and to our companies."

he jitters quickly hit financial mar- , with Japan taking most of the hit. U.S. stock market seemed to shrug he confrontation, but prices on the o Stock Exchange plunged. And on 14, the yen rose against the dollar ew York from 106.85 to 102.65. Al- gh it recovered and now appears le at around 104, many analysts be- the rate could now drop below 100 he first time in modern history.

he Japanese are bracing for a good t (page 29). Tokyo officials argue Clinton is treating the bilateral re- nship as a unique case for managed e. Washington, they claim, wants affirmative action" program that uses as and timetables to reduce Japan's billion trade imbalance. According to er Japanese Foreign Minister Mi- Watanabe, the Clintonites "are sure ntroduce retaliatory measures one e another."

fact, such a path seems unlikely. er, the White House is launching easured strategy that, as one Ad- stration official says, "slowly ratchets he psychological pressure on Japan l it makes the next move to get the s going again. We're prepared to them out, but the next phone call is g to have to come from them."

TARGETS. The first modest step in U.S. pressure-point campaign was n on Feb. 15, when Kantor for- y declared the Japanese in viola- of a 1989 agreement to give Mo- la Inc. full access to the Japanese lar-telephone market. That action, self, will have little practical im- . But the USTR, he said, is compiling st of high-tech Japanese products, as video camcorders and auto elec- ics, that could become the next tar- for retaliatory tariffs.

ithin the next few weeks, Adminis- on officials say, the President will is- an executive order reviving the so-

called Super 301 sanctions so feared by the Japanese. The law, which President Bush allowed to expire, requires the White House to publish a list of coun- tries that use unfair trade practices. If the offenders don't change their ways, they become tar- gets for mandatory retaliation. Officials say that when Clinton issues the ex- ecutive order, he may cite Japan in a Super 301 action. But the initial ef- fect would be to trigger an investi- gation that would last a year.

Similarly, the Administration may invoke the proceed- ings of the General Agreement on Tar- iffs & Trade. A charge that Japan has taken actions that "nullify and impair" previous trade agreements would trigger a GATT investigation. At upcoming meet- ings of trade min- isters in Mar- rakech, Moroc- co, in April and at an Asia Pacific Econom- ic Cooperation for- um in the fall, the U.S. will try to persuade Asian and European nations to join it in demand- ing access to Japanese markets.

Trade hawks on Capitol Hill will be Clinton's allies in

PRESIDENT CLINTON'S RISKY OFFENSIVE: A WAR OF NERVES THAT ESCALATES



**UNTIL
JAPAN
AT LAST
GIVES IN**



Top of the News

tightening the vise. House Majority Leader Richard A. Gephardt (D-Mo.) and Senator John D. Rockefeller IV (D-W.Va.) will soon introduce legislation that requires the President to set numerical measures of progress for a range of products if the Japanese don't agree to targets first. The get-tough approach has surprisingly strong bipartisan backing. "The Japanese better understand that this is not a partisan issue," says Senate Minority Leader Robert Dole (R-Kan.), dropping the fierce partisanship that has characterized his recent stands on health-care policy and the budget.

The Administration's assault won't end there. Sources say Anne K. Bingaman, the Justice Dept.'s antitrust chief, plans to step up efforts to bring antitrust cases against companies in Japan for *keiretsu*-like agreements that U.S. exporters claim are blocking sales of their products. And the Commerce Dept. is reviewing Japanese companies' use of free-trade zones, which allow duty-free importation of parts to be used at assembly plants owned by the Japanese.

But the greatest peril to Japan may come from financial markets rather than policymakers. Even though Administration officials have studiously avoided pronouncements about the desired value of the yen, they've made it clear that they want to see it high. A rising yen could help redress the trade imbalance by making U.S. goods cheaper in Japan and Japanese products more expensive in the U.S.

FEW ALTERNATIVES. No doubt the Administration was pleased when the currency markets drove the yen up because of the chill the development sent through Tokyo's financial community. But the Clintonites want to avoid direct involvement in the markets, which can quickly lead to unpleasant consequences. If the dollar falls too fast, the Federal Reserve would have to prop it up, first by sopping up dollars on the market and eventually by raising interest rates and jeopardizing the economic expansion. "We won't use exchange rates as a weapon," insists a top Treasury Dept. official. "We believe in letting the markets be markets."

The markets, for their part, appear to think the Administration is getting what it really wants without having to ask: a dollar worth about 100 yen. "If the U.S. thinks the [trade] imbalance is at an unsustainable level and the negotiations are dead, the only way to deal with it is with a higher yen," says William P. Sterling, an international economist at Merrill Lynch & Co. Sterling predicts the

don't accomplish anything," says Ford Motor Co. Vice-Chairman Allan Gilmour. "I'd rather have a big loss than another little victory." Adds Robert Saldich, CEO of Raychem Corp. in Menlo Park, Calif., and president of the American Electronics Assn.: "Frankly, we don't see a lot of alternatives."

Even so, the Administration's policy is fraught with risk. If Tokyo doesn't yield to a gradual escalation of pressure, Clinton could face a choice between retaliation or humiliation. Japan-bashing is considered election-year sport at Capitol Hill, and the President may find the unleashed trade hawks difficult to control.

SURGICAL STRIKES. But broad hard-hitting sanctions could hurt American companies almost as much as Japanese: Nearly half the U.S.-Japan trade imbalance lies in components used by U.S. companies to make their own products. For that reason, Clinton likely would be limited in pursuing more surgical strikes against obscure Japanese products that aren't widely used—relatively weak response after such initial bravado.

Clinton does not seem alarmed by the danger. Although he dithered on Bosnia, Somalia, and Haiti, the President seems eager to apply some economic *jujitsu* to Japan. Gazing into the future, the Clinton Administration sees Japanese-style mercantilism emerging as the leading threat to American standard of living. Instead of an arms race, the Clintonites see an export race—rigged in Japan's favor. And they worry that such booming Asian nations as China, Indonesia, and Korea will model themselves after the Japanese export machine. "Don't think for a second that other countries aren't watching the outcome of this standoff closely," warns one senior Administration official.

Also watching are nervous multinationals on both sides of the Pacific, which are wondering whether the President's trade bluster could be the start of a more productive relationship with Japan—or perhaps the first salvo in an escalating, damaging trade war.

By Douglas Harbrecht and Owen Umann, with Richard S. Dunham and Thane Peterson, in Washington, and Robert D. Hof in San Francisco

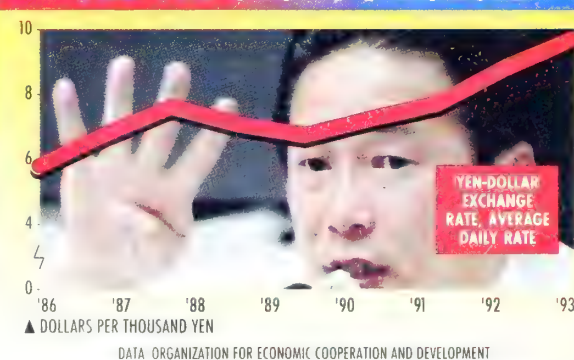
JAPAN'S JUGGERNAUT SLOWS



THE TRADE GAP BALLOONS



THE YEN GROWS STRONGER



dollar will fluctuate between 100 and 110 yen over the next 12 months, but he doesn't rule out its falling to 95 yen, if Japan's global trade surplus this year remains around \$130 billion.

So far, U.S. business seems content to ride the whirlwind whipped up by the President's willingness to blow up the Hosokawa talks. "We don't need any of these little agreements anymore that



MARLBORO IN JAPAN: ECONOMIES TOO INTERTWINED FOR SANCTIONS TO WORK?

So much for the siege mentality in Japan. While the Clinton Administration tries to drive a wedge between business and the bureaucracy with a rising yen and trade sanctions, Japanese officials say the Clintonites need a reality check. "It would be a serious mistake to believe Japan is a split country [on this question]," says Toyoo Gyoten, chairman of Bank of Tokyo Ltd. and a former top Finance Ministry official. "There's an amazing unanimity of view [against] America's quantitative targets."

DOSE OF MOXIE. That support helped Hosokawa become the first Japanese leader in postwar history to rebuff an American President openly. His moxie is part style. But it also reflects Japan's belief that, economic woes aside, it has more leverage with the U.S. Japan, as the world's largest creditor nation, is well-positioned to cash in on Asia's economic boom. The world continues to depend on Japanese foreign aid. And Japan is the sole supplier of key components to U.S. industry, including liquid-crystal displays for laptop computers.

Interdependence between U.S. and Japanese industry is one reason many observers think American sanctions can't work. Many Japanese conglomerates, for instance, have developed ties with U.S. companies that could lobby on their behalf. Matsushita Electric Industrial Co., a potential target of American sanctions on mobile phones, has partnerships with American Telephone & Telegraph, General Magic, and 3DO. NEC Corp. has a close semiconductor tie-up with AT&T.

What's more, many Japanese-brand products sold in America aren't made in Japan. "More than half of Japanese exports to the United States are intermediate goods," says a senior Japanese official. "If tariffs on them increase, that will affect U.S. industry." That's not to mention American consumers' likely outrage at tariffs on such popular items as cars and audio-video gear.

The Japanese also dismiss concerns

THE JAPANESE ARE HARDLY LEADING FOR THE BUNKERS

The trade standoff has most feeling confident—not threatened

Tokyoites woke up to a double whammy on Feb. 12: Their city was paralyzed by its heaviest snowfall in more than 20 years, and TV screens blaring ominous reports of the summit in Washington. "I never thought this could happen," fretted a portfolio manager as she spent Saturday in front of her TV, concerned about how financial markets would react. She needn't have worried. While the Japanese markets did blow a gasket on

Monday, they settled down within a few days, and a crisis appeared averted. In fact, many people were smugly satisfied to see Prime Minister Morihiro Hosokawa stand up to President Clinton. As Hosokawa took the high moral ground in defense of free trade, the politicians, bureaucrats, and business community united in a common front against numerical targets. Within three days, the threat of higher taxi fares had pushed trade off the front page.



TALKING ON A MOTOROLA MOBILE PHONE IN TOKYO: JAPANESE OFFICIALS SAY CLINTON NEEDS A REALITY

CHECK. "IT WOULD BE A SERIOUS MISTAKE TO BELIEVE JAPAN IS A SPLIT COUNTRY" ON THE QUESTION OF NUMERICAL TARGETS, SAYS THE CHAIRMAN OF THE BANK OF TOKYO



PHOTOGRAPH BY CAROLINE PARSONS

about a rising yen, which has appreciated 7.6% in 1994. While Finance Minister Hirohisa Fujii has expressed concern that a yen at current levels could undermine Hosokawa's new \$145 billion fiscal-stimulus package, most executives argue that the yen will weaken soon, as the American recovery continues and U.S. interest rates move up.

At the same time, many Japanese say

a stronger yen would do damage to some of America's interests by discouraging U.S. industry's investment in Japan and the import flows that would follow. General Motors Corp., for one, has expressed concern that a higher yen might limit expansion of its Japanese operations. "A too-high yen would undermine our economic relationship," says Noboru Hatakeyama, an adviser to No-

mura Research Institute and a former top official at the Ministry of International Trade & Industry. Japanese industrialists agree. "An exchange rate policy can't correct the trade imbalance," says NEC President Tadahiro Sekimoto. "The U.S. government can't really believe it will."

None of this is to deny that so many Japanese feel vulnerable to Washington.

Commentary/by Paul Magnusson

DOES CLINTON HAVE JAPAN'S NUMBER...



President Bill Clinton broke ground on Feb. 11 by admitting that the U.S. and Japan had failed to reach even a minimal, face-saving trade agreement after seven months of intensive negotiations. The breakdown in the talks briefly rattled currency markets and raised the specter of a trade war. But the stalemate may do something that decades of forced smiles and phony deals didn't do: shock Japan into meaningful reform. "Clinton had to start with an out-and-out failure," says a former top Bush Administration trade official. "If he had tried to paper this one over, he would be writing off any progress during his Administration."

It will take tough action to get Japan off the mark. Despite its reformist reputation, the government of Japanese Prime Minister Morihiro Hosokawa is still hewing faithfully to Japan's post-World War II strategy: export as many high-tech goods as possible, exclude foreign competitors and investors from the home market, and shift the subsequent higher prices onto Japanese consumers. The result: Manufactured imports account for only about 6% of the Japanese market, vs. 15% in the U.S. and Germany. Such a mercantilist system is no longer tolerable now that Japan's economy is the world's second most powerful.

MORE PRESSURE. Where should Clinton go from here? The White House should champion industries where the U.S. is highly competitive worldwide but has been held to an artificially low market share in Japan. Focused pressure to crack open markets for U.S.

glass, supercomputer, and satellite makers has worked in the past. In the most dramatic case, Japanese electronics companies finally allowed foreign manufacturers to capture more than 20% of its semiconductor market last year. That approach should be expanded to pharmaceuticals, medical instruments, telecommunications, and insurance—in short, to any sector where the U.S. is competitive in Europe but shut out in Japan.



Still, even such targeted pressure won't do much to turn around Japan's \$130 billion current-account surplus with its trading partners. For that, the U.S. will have to demand reforms in Japan's creaky distribution system, which makes it expensive and difficult for foreigners to sell there. Other prime targets: Japan's largely closed financial markets and its ludicrously inadequate antitrust enforcement. Clinton's leverage can come from threats of

U.S. antitrust enforcement against Japanese multinationals located within the U.S. Japanese transplants and their *keiretsu* relatives in Japan want to avoid scrutiny and questions about price fixing and tax shenanigans. That can help supply the necessary pressure on the home office.

Then there's the yen. When the U.S. agreed last August to cap the yen's value against the dollar, it took some of the pressure off of Japan.

reform. "If the Administration chooses not to cooperate again in holding down the yen, that would be a way of sending a very clear signal," says I. M. Destler, a University of Maryland economist. Japanese manufacturers fear a strengthening yen will eventually drive up prices and make them uncompetitive.

Clinton also can prod Japan to become less insular. Japan "doesn't want to be dependent on foreign parts and supplies," says Stephen D. Cohen, an American University expert on Japan. To change that attitude, the U.S. can impose reciprocity if Japan continues to discriminate against imports. Already, the Administration backs the idea of a "fair trade in financial services" bill that would restrict foreign banks

and brokerages if U.S. firms face restrictions in their home countries.

Japanese promises to open markets should lead to measurable results, which is basically what the U.S. is now demanding. Progress is more likely now that the two sides have stopped papering over their differences. Clinton should stick to his guns.

Magnusson covers economic policy for BUSINESS WEEK from Washington.

ats. "I'm very worried about what U.S. government may do in the way actions," says Yukio Itagaki, chairman of the Japan Auto Parts Industries. Atsushi Nishikohri, a member of Okawa's ruling coalition, shares this view. "We've been making real progress a variety of reforms," he says. "I think Clinton would recognize this." Indeed, Japan hasn't shut down negotiations completely: It recently agreed to her open public-works projects to

U.S. contractors and has said it would consider expanding government purchases of U.S. computers.

Clinton Administration officials lack the patience for such talk. But they shouldn't underestimate Japan's will to resist numerical targets. None of this bodes well for U.S.-Japan relations. "Short-term, things will be precipitous," says Yukio Okamoto, a former Foreign Ministry official.

Over time, however, he and others

are more sanguine, pointing to the intense interdependence of the two countries on the economic, security, environmental, and foreign aid fronts. "On the whole," says Gyohten, "what's happening now will result in a more mature relationship based on greater mutual respect and shared responsibilities." He's probably right. But for a while, the road to that putative Valhalla looks paved with land mines.

By Robert Neff in Tokyo

Commentary/by William J. Holstein

...OR IS HE DIALING FOR DISAPPOINTMENT?



In a colossal miscalculation, the White House has utterly failed to grasp the nature of economic and political change in Japan.

As a result, it aims for a quick fix to chronic U.S. trade deficits threatening retaliation. The bet: the Japanese will come to their senses and surrender.

It just isn't going to work. The Japanese know that U.S. consumers want their Toyotas and Sonys, and that U.S. companies rely on Japanese components. They know that many U.S. companies are making profits in Japan, while Japanese companies employ many Americans in their U.S. plants.

Because the economies of the two countries are so intertwined, most of the blunt instruments President Clinton is threatening would boomerang against U.S. interests. "The Japanese are rather jaded," says Glen S. Fukushima, a former U.S. trade official and currently vice-president of the American Chamber of Commerce of Japan. "Over the past years, U.S. Administrations have cried wolf repeatedly and threatened various actions. But the Japanese have gotten tired of it. It's a credibility issue."

The real imperative is for Clinton to start crafting a more sophisticated long-term Japan policy. It should start with the recognition that yes, there may be change in Japan, but it is not going to create a mirror image of America's wide-open society. A confident generation of people in their 50s is taking charge, and they want to modernize Japan's distinctive brand of capitalism. But they'll do it on their own, thank you, and they're not

going to be motivated by threats from Washington.

To come to grips with the structural causes of the deficit, Clinton should gear up his Administration's Japan savvy. Almost none of his senior people has lived in Japan or speaks Japanese. And no one is overseeing complex U.S.-Japanese linkages in trade, finance and investment, technology, and defense and security. A quiet weekend at Camp David with 100 of Amer-

icans to export to Japan. Export and tax rules should encourage American companies to invest the time and money needed to penetrate Japan. Export financing channels should be opened. Investment should be encouraged, not penalized, because U.S. plants in Japan draw in exports from back home. "The U.S. needs to put as many resources into projecting commercial might into Japan as it has on military might," says John Stern, Tokyo representative for the American Electronics Assn. (AEA).

■ Link trade to broader relations. It's naive to just talk about strengthening U.S. competitiveness without understanding what Japanese companies are doing in the U.S. The Committee on Foreign Investment in the U.S., for example, an interagency body in Washington, is failing to review Japanese purchases of smaller high-tech U.S. companies. The Internal Revenue Service hasn't followed through on cracking down against the transfer-pricing practices of Japanese multinationals. Both should get on with the job. And the Justice Dept. should come to grips with just how thoroughly *keiretsu* operating in the U.S. challenge the American notion

of fair trade.

So without resorting to nasty brinkmanship, the Americans should quietly get their competitive and governmental act together. That would be far more effective than to keep dreaming about how U.S.-forced "change" in Japan will suddenly wipe out the trade deficit.

Holstein is editor of BUSINESS WEEK's international edition.



ica's top Japan strategists from business and academia would be a start. Longer term, Clinton officials should regularly consult with an advisory group of real Japan experts. And they also should create a Japan policy office within the White House to speak with a single voice.

The goal should be a national economic vision with two objectives:

■ Crack Japan. Rather than preaching, the U.S. needs to redouble its efforts

WINNERS



BASKING IN VICTORY: REDSTONE (RIGHT) WILL LEAD THE NATION'S NO. 2 MEDIA COLOSSUS

SUMNER AT THE SUMMIT

Now, it's time to mend fences—and Paramount's bottom line

Congratulations on your glorious victory," read the card on a bottle of Veuve Clicquot champagne sitting outside Sumner M. Redstone's office. "From your fair-weather friends at MTV." Next to it was a phone log with messages from Hollywood lobbyist Jack Valenti, Gerald M. Levin of Time Warner, and Tom Pollock of Universal Pictures.

Redstone had a world of friends on Feb. 15, and no wonder: At the stroke of midnight, the chairman of Viacom Inc. finally triumphed in his epic takeover battle for Paramount Communications Inc. By engineering a three-way merger of Viacom, Paramount, and Blockbuster Entertainment, Redstone has created the nation's second-largest media empire—after Time Warner Inc.—with annual revenues of about \$10 billion. In the Burke's Peerage of media

aristocrats, Redstone has clearly ascended from squire to baron.

Now, kicking back at the end of a day of TV interviews and congratulatory phone calls, Redstone was in a magnanimous mood. With him was an equally ebullient Frank J. Biondi Jr., Viacom's CEO, who will also run the new company. As they mused about the fight—echoing each other on some points, disagreeing on others—Redstone and Biondi offered a glimpse of how they aim to meld three companies into one.

Of his rival bidder, QVC Network Inc. Chairman Barry Diller, Redstone says: "There's no lingering ill-feeling. I consider myself a lover, not a hater." The two aren't exactly swapping valentines yet: QVC's hostile bid drove up Paramount's price from \$8.2 billion to roughly \$10 billion (table). All the same, Redstone says he is open to doing busi-

ness with Diller's home-shopping chain in the future. Indeed, Diller had been discussing a deal with MTV to produce music paraphernalia before the bid war erupted.

Redstone is even extending an olive branch to one of Diller's erstwhile rivals, cable titan John C. Malone. Redstone plans to seek him out while Viacom meets in Colorado the week of Feb. 21 to express hopes that he will cooperate with Malone's Tele-Communications Inc. "We don't want a war," says Redstone. Still, the *detente* has its limits. Viacom isn't ready to withdraw a full titrust suit against Malone, particularly since TCI is now merging with another larger Bell Atlantic Corp.

SHAREHOLDER IRE. For now, Redstone has his own merger to worry about. Viacom's Class B shares have slipped from 55 to a recent 28 during the courtship of the takeover. That erodes the value of his own holdings from \$5 billion to \$1.5 billion. More important, it has angered some Blockbuster shareholders, who are being paid for their company in Viacom shares. Investors will vote on the merger in April, and Blockbuster Chairman H. Wayne Huizenga warns that unless Viacom's stock revives, Redstone may have to sweeten his offer.

Redstone believes that Wall Street will come to appreciate the value in merging Blockbuster's retail stores with Viacom's cable networks and Paramount's extensive film library. "The opportunity we have with Paramount and Blockbuster," he argues, "are ones we will never have by ourselves." And any deal, he notes, the Paramount/Viacom merger will go through regardless of whether Blockbuster and Viacom join forces.

Restoring Paramount to health is another matter. The company's film sales have struggled in recent months: Its Christmas films, *Wayne's World 2* and *Addams Family Values*, were disappointments, while an upcoming feature, *Blue Chips*, went over budget by at least \$10 million. Observers say Redstone and Biondi will clean house at Paramount Pictures Corp., starting with Chairman Sherry Lansing. But Biondi says Lansing has been hamstrung by a corporate strategy that has emphasized big-budget pictures, and she may well stay on.

THE TROPHIES OF WAR

ASSETS MTV, Nickelodeon, Showtime, 50% of USA Network; Paramount Pictures and Spelling Entertainment; Simon & Schuster; Blockbuster retail stores; Madison Square Garden; Discovery Zone and Paramount theme parks; TV stations and cable systems; movie theaters

DATA: COMPANY REPORTS, PAINWEBBER INC.

VIACOM'S FINAL OFFER

CURRENT VALUE	PROJECTED VALUE
\$79.03	\$82.88
per share	per share
\$9.56	\$10.02
billion total	billion total*

*One year from merger, with Viacom trading at \$36.55

VIACOM-BLOCKBUSTER-PARAMOUNT

COMBINED 1994 REVENUES	COMBINED CASH FLOW	COMBINED NET DEBT
\$10.20 billion**	\$1.76 billion**	\$9.0 billion

**Estimated operating results

Redstone doesn't preclude selling off sets to pay down his roughly \$9 billion in debt. He confirms that he may give an earlier plan to sell a stake in Viacom's cable systems to a regional telephone company. And the future of Paramount's 50%-owned USA Network is in question. But unlike Diller, Redstone wants to keep Paramount's seven television stations, which form the core of Paramount's new broadcast network. And he doesn't plan to ride herd on Paramount's Simon & Schuster publishing arm or its chairman, Richard E. Snyder. "He's one of the good execu-

tives over there," says Redstone.

But don't assume from his generous tone that Redstone enjoyed the takeover. The 70-year-old executive was dogged by accusations of manipulating Viacom's stock. And he got a stinging rebuke from the Delaware Chancery Court, which threw out his original merger with Paramount. "The pain was extreme, and a lot of it was unwarranted," he says. "But when we went over the top, all the pain, frustration, and exhaustion went away."

Now, Redstone and Biondi can turn to happier tasks, such as choosing a name

for their baby behemoth. Playing on his boss's legendary tenacity and the Blockbuster name, Biondi jokingly suggests "Ballbuster."

"That's a good description of Wayne Huizenga," allows Redstone, with a twinkle in his eye.

"Oh, and you're just a day at the beach," quips Biondi.

"In Wayne's hands," responds Redstone, "I'm nothing but putty."

Somewhere, Barry Diller is rolling his eyes and gnashing his teeth.

By Mark Landler in New York, with Gail DeGeorge in Miami

DOWN AND OUT IN BEVERLY HILLS? GET REAL

If Barry Diller is moping over his loss of Paramount Communications Inc. to Viacom Inc., he's not about to show it. "One of the things I learned long ago about auctions was that it's not about ego or talent," Diller said after his defeat. "It's simply about raising your hand for the next bid."

That next bid is a matter of fervid speculation from Wall Street to Wilshire Boulevard. Diller won't discuss specifics, but he makes it clear that he plans to play on a larger field than his \$1 billion-a-year home-shopping service. "We went for five months tilting at this windmill," Diller says. "There will be others."

BIG STAKE. What media property could he target? Take your pick: NBC, which he once considered buying from General Electric; or MCA, whose Japanese owner, Matsushita, has discussed selling an equity stake with other media companies; or maybe even Time Warner, in which his friend, Seagram President Edgar Bronfman Jr., has amassed a big stake. "You have to be opportunistic about these things," says one top Diller adviser. That means Diller could make his move with scant warning or change strategy as assets become available.

In the short term, however, Diller needs to get his own house in order. While he has been waging his campaign for Paramount, others, including Time Warner Inc., have announced a raft of home-shopping rivals. QVC Network Inc. itself will soon launch a new upscale shopping channel, Q2, and also

is selling its *tchotchkes* in Europe. To bolster his position in this crowded market, Diller will probably revive his efforts to merge with archrival Home Shopping Network Inc.

Before he even takes that step, Diller must settle the shifting list of players who are supporting QVC. Cable titan John C. Malone had agreed to sell his stake in QVC after his involvement raised antitrust concerns during

worth of QVC stock. TCI, meanwhile, is close to merging with Bell Atlantic Corp. BellSouth may not want to share its investment in QVC with a rival Baby Bell. What's more, Malone remains a lightning rod for federal regulators.

With annual cash flow of nearly \$100 million and with funds available from backers such as Comcast and the Newhouse family, Diller has plenty of money to go shopping without BellSouth.

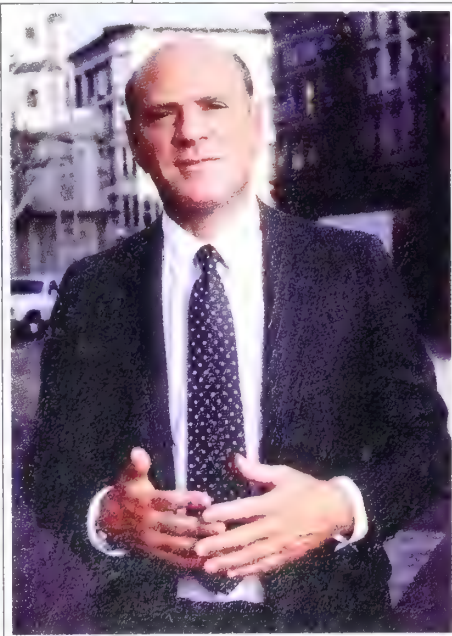
Nor has he lost much of his luster in the takeover battle. Matsushita, which has discussed selling a minority stake in MCA to Malone, may see Diller as just the man to propel its film and record companies into the multimedia age.

The creator of the Fox network has also contemplated starting another TV network. Buying NBC Inc. would give Diller a strong foundation. But Richard J. MacDonald, a media banker at CS First Boston, warns that Diller might have to compete for the networks with such power players as Turner Broadcasting and Walt Disney.

Diller is a methodical man who weighs his objectives carefully. This

time, though, media experts say he can't afford to tarry, since other potential buyers are already circling the few remaining software players. "It isn't as if there's another Paramount," notes Viacom Chairman Sumner M. Redstone. "We got the last Paramount." Sure enough. But in Barry Diller's world, this auction has only just begun.

By Ronald Grover in Los Angeles, with Mark Landler in New York



Diller wants to play on a larger field—and that may mean a bid for NBC, MCA, or even Time Warner. But first, he may try to merge with Home Shopping again

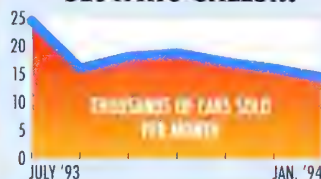
the takeover. Since that's no longer an issue, the president of Tele-Communications Inc. will retain his 19% stake in QVC and resume his role as one of the company's three controlling shareholders, along with Diller and cable operator Comcast Corp.

But some of Diller's other backers may not welcome Malone's return. BellSouth Corp., which played a crucial role in financing Diller's bid, still retains an option to buy \$500 million

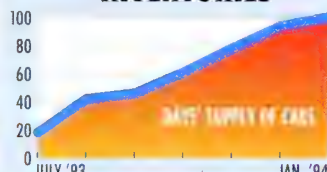


HARD WINTER IN SPRING HILL: GM'S CASH WOES AREN'T HELPING

SATURN: SLOWING SALES...



...MOUNTING INVENTORIES



DATA: WARD'S AUTOMOTIVE REPORTS

SUDDENLY, SATURN'S ORBIT IS GETTING WOBBLY

To battle a slump, it's beefing up ads, pushing leases, and adding dealers

Last summer, Saturn Corp. was selling so many cars that dealers literally ran out of them. Now, General Motors Corp.'s \$5 billion small-car venture is faltering badly. From a peak of 24,862 units in June, sales plunged 42%, to 14,377 cars, in January. Saturn's inventory of unsold cars is a problem, too, jumping from 18 days in July to current levels of 100 days (charts). "The bloom is off the rose," complains one unhappy East Coast dealer.

What happened? Much of the blame rests with cash-strapped GM, which pressured Saturn so hard to turn an operating profit that the company hurt sales by cutting corners too drastically. Saturn slowed the pace of dealer expansion. To curtail spending, it virtually eliminated advertising on its products during the boom. GM didn't help by delaying approval for a new plant and by forcing Saturn to push back product improvements.

PLANT PROBLEMS. Now, Saturn officials are frantically seeking to regain lost momentum. They're boosting advertising budgets, offering aggressive new leasing deals, and adding new dealers. Those steps will help some, but Saturn's aging models face tougher competition from rivals such as Chrysler Corp.'s zippy new Neon subcompact.

With sales figures headed in the wrong direction, Saturn's future could be dicey. Cash-strapped GM now seems even less likely to cough up \$1 billion for an oft-de-

played second factory. And over the long haul, Saturn's survival depends on adding capacity. Only if it sells more than 500,000 cars a year can Saturn make enough money to survive as an independent unit.

Plans for a new factory have been on hold for nearly two years while Saturn struggled to make an operating profit—a tall order for a small startup. Although Saturn inched into the black last year, GM doesn't appear ready to give the green light to new capacity. "Saturn has got to fight for capital like any other business," GM Executive Vice-President William E. Hoglund says. "It's causing them some trouble."

Saturn still has plenty going for it. Customer satisfaction is second only to Japanese luxury brands Lexus and Infiniti, according to J.D. Power & Associates Inc. Likewise, Saturn cars have among the lowest defect rates of any U.S. brand. Half of its customers say they would have bought a foreign nameplate if Saturns hadn't been on the market.

But it will be difficult for Saturn to

Saturn's major makeover has been pushed back to 1996, giving Chrysler's Neon two years to grab share

overcome the problem caused by GM's ongoing cash crunch. GM's decision to delay plans to provide a face-lift for Saturn's existing models pushed back a new interior, including passenger air bags, from the 1994 model year to 1995. That puts Saturn at a disadvantage to rival Toyota, Hondas, and Neons, which dual air bags are standard. And a major makeover, including all-new exterior styling, a quiet engine, and an improved chassis, has been pushed back a year, to 1996. Result: Chrysler has nearly two years to get Neon production up to full steam

and grab some market share.

To recapture customer attention, Saturn is planning to unveil a nationwide three-year lease program by the end of February that offers cars for as little as about \$180 a month. That should help boost leasing to as high as 20% of sales vs. just 4% now, says Donald W. Hudler, Saturn's marketing boss.

NEW MARKETS. To clear out inventory, Saturn in mid-January began offering discounts to non-Saturn GM employees for the first time. They can get 13% off the sticker price, which should sell another couple thousand cars a year, Hudler figures. He is even considering sales to big fleet buyers, who are attracted to Saturns because of their good quality and high resale values.

Advertising, which was scaled back to virtually nothing during the summer boom, is coming back with a vengeance. The company doubled its January budget compared with a year earlier. And upcoming ads will emphasize price more aggressively, instead of focusing on Saturn's image. Finally, Hudler is picking up the pace of dealer expansion, which virtually halted when cars were in short supply. Saturn has just 285 outlets now, a fraction of Chevrolet's 4,453, and it serves only about 60% of the U.S. "We have a hell of a lot of midsized small markets that we haven't even started to touch," says Hudler.

Saturn executives are betting that demand from those new markets will produce the same sort of shortages they had to contend with last summer. If not, GM's feisty little startup can forget about financing for a new plant. And that could leave Saturn stuck in the bread down lane for good.

By David Woodruff, with Kathleen Kerwin, in Detroit

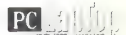
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AND THE NEXT JUICY PLUM MAY BE...McKESSON?

Why the drug distributor has Wall Street going gaga

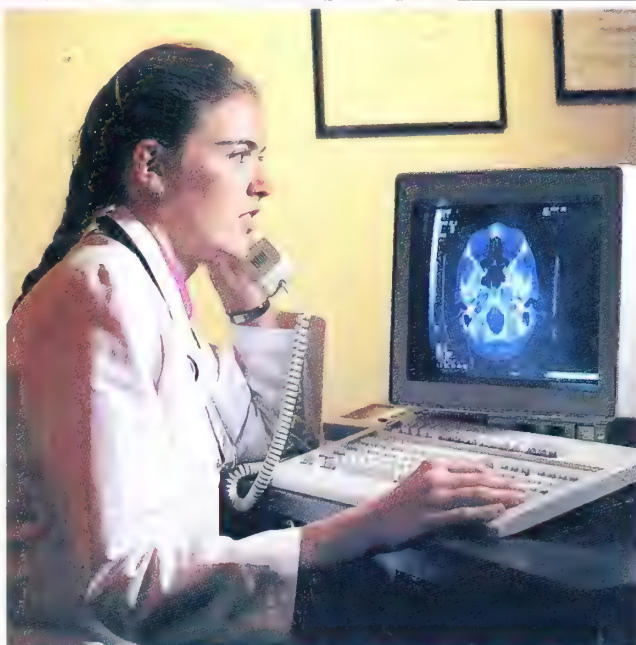
Now that the drama over who will win Paramount Communications Inc. is finally settled, the takeover game may be moving to a new playing field. And the next football could be McKesson Corp.

McKesson? Sure, the huge drug wholesaler and distributor has long had a snoozy reputation on Wall Street and wears none of the glitter of Paramount. But stock traders are busy bidding up McKesson shares in the belief that big drugmakers are sizing it up for a takeover (chart). If they're right, a clash of egos and a juicy bidding war is in the offing.

What's arousing interest in McKesson is not distribution, which accounts for 95% of its \$12 billion in sales, but a mouse of a division called PCS Health Systems Inc., with revenues of just \$170 million. A mouse, yes, but a mighty one: That 2% of sales will produce a roaring 20% of McKesson's \$272 million in operating profit for the year ending in March. PCS's sales and earnings are exploding at 50% a year. And profit margins are some 30%, analysts say.

HEAVY PRESSURE. Indeed, PCS is the leading company in the white-hot new business of managing pharmaceutical costs for big health-plan sponsors, including corporations, governments, and insurance companies. Its biggest competitor is Medco Containment, which Merck & Co. bought for \$6 billion in November, 1993—in part to assure a high-volume customer channel for its products, many of which are under extreme price pressure from generic drugs, me-too equivalents, and health-care sponsors trying to force prices down.

Since the Medco deal was announced last July, McKesson stock has steadily climbed from 46 to 65, on the theory



A McKESSON SYSTEM WILL LINK DOCTORS WITH PHARMACIES

that another big drugmaker would seek its own customer-channel advantage by buying McKesson and PCS. Indeed, Wall Street is alive with rumors that everyone from Glaxo to Pfizer to Eli Lilly is circling McKesson.

Is McKesson interested? CEO Alan J. Seelenfreund says he sees no advantage in forging an equity partnership with any drugmaker: "Why would we?" But on questions of takeover, he is circumspect. "I'm only one person," he says. "We have a board of directors" to deal with matters of "corporate governance."

Analysts say that McKesson is trading below its breakup value—not because of any mismanagement but because PCS has become so hot relative to the thin-margin distribution business. Lawrence C. Marsh of Wheat First Securities says McKesson could easily be split. Its bottled-water division and its majority stake in Armor All, a plastic protectant, could be sold. Distribution could also be spun off.

Marsh pegs breakup value at \$90 share, with PCS alone accounting for \$10 based on Medco's purchase price. A deal that figure assumes no emotional bidding war, which could jack the price further. The Merck-Medco deal has spooked pharmaceutical executives with "fear and concern," says Marsh. "A lot of these guys are desperate."

The main way that pharmaceutical benefit managers are able to influence drug purchasing is through "formularies," or lists of approved drugs based on cost-benefit analysis. Assuming equivalent effectiveness in a group of competing drugs, a drugmaker that controls a formulary can price its product to move to the top of the list, then try to make up in volume what it's giving up in price.

GETTING HOSED? Of course, such a change in arrangement raises questions of conflict of interest. In fact, PCS uses just this point to market its service against Medco. Currently, big buyers of medicines rely on competition to keep everyone honest, says Dolores G. Mitchell, executive director of the Group Insurance Commission of Massachusetts, who oversees drug-benefit contracts for 160,000 state employees, retirees, and dependents. "If we get hosed, the [contractor] is history," she says. But if a drug company buys McKesson, the biggest independent alternative goes away.

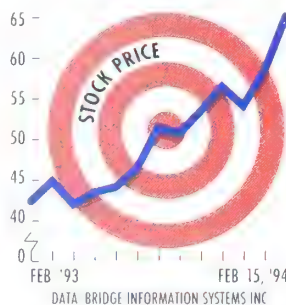
McKesson, meanwhile, is busy building its PCS business. It aims to go beyond pharmaceutical management and become a full-fledged medical-services management company. In January, it bought an interest in Integrated Medical Systems Inc., an electronic network that links doctors with hospitals and

medical laboratories. McKesson will use this system to tie doctors into its pharmaceutical computer network, which is installed in 95% of the nation's pharmacies. McKesson has also recently bought a stake in Technology Assessment Group, which specializes in "outcomes research," a fast-growing business that evaluates the efficacy of drugs and other medical treatment.

Seelenfreund, CEO for four years and largely responsible for McKesson's current strategy, sees these businesses as the company's future. It remains to be seen whether that company will still be McKesson.

By Russell Mitchell in San Francisco and Joseph Weber in Philadelphia

McKESSON: TAKEOVER TARGET?





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WILL ANYBODY EVER GRAB THE RING AT ZALE?

The jeweler's fruitless search for a CEO has lasted six months—so far

You would think that any ambitious CEO-wannabe would have jumped at the top slot at Zale Corp. After all, when the nation's largest jewelry retailer emerged from bankruptcy last July and dumped its chief executive, the fix-up effort didn't seem particularly taxing: Zale boasted a sparkling balance sheet and a streamlined store base. And despite its debt-laden past, the chain enjoyed a strong consumer franchise.

But six months later, the dream job is unfilled. And the lengthy search is raising questions about the judgment of Zale's board. One top-notch retail executive says he was wooed and unceremoniously dumped during the process (table). And a shareholder and former creditor, Barre & Co., has filed a motion in bankruptcy court to compel the Irving (Tex.) jeweler to name a CEO within 30 days. "Without proper management, we're headed into another mediocre year," says Barre CEO David Glatstein, whose company pushed Zale into Chapter 11 in January, 1992.

BREATHING ROOM. The company clearly needs a steady hand after a lackluster Christmas season, when rivals forced it into heavier-than-expected discounting. Since last July, Zale has twice warned that it would fall short of earnings projections for the fiscal year ending Mar. 31. Now, the number is likely to come in at some \$60 million for earnings before interest, taxes, and depreciation, vs. the company's original forecast of about \$94 million, says analyst Raz Kafri of Grantchester Securities in New York. "The results are really, really weak," says Kafri. "Something should be done there."

Zale's directors and managers insist that they're moving quickly to fix the retailer's problems and build on its still formidable strengths, even without a CEO. Larry I. Pollock, a well-regarded jewelry industry executive, joined Zale as president and chief operating officer on Jan. 10. That gives the company

some "breathing room" in its CEO search, says Richard C. Marcus, a Zale director. And on Feb. 15, Zale named a new chief financial officer, John Belknap, who formerly served as CFO of retail operator Seligman & Latz.

Ironically, though, Zale's efforts to move ahead with its management team-



ZALE: TURMOIL AT THE TOP

(From left)

DEAN G. GROUSSMAN Resigned as CEO last August after a year on the job when a new board failed to renew his contract.

ANDREAS LUDWIG Zale's chief financial officer became interim COO after Groussman's departure. Ludwig, who steered the company through bankruptcy proceedings, left Zale in January.

HAROLD KAHN In January, Zale halted talks to make him CEO. Now head of Federated's A&S/Jordan Marsh, Kahn previously served as president of Montgomery Ward.

DATA: BUSINESS WEEK

building could make the CEO search more difficult. "That's the tail wagging the dog," says Melanie Kusin, a managing director of executive recruiter Russell Reynolds Associates, who notes that most chief executives like to pick their own lieutenants.

Marcus argues that meshing a CEO

with Zale's new management team will not be a problem. In fact, he says, the company has already had "substantial conversations" with a retail executive about the top job. Marcus and other directors won't reveal names, but one industry source indicates that Brooks Brothers CEO William V. Roberti might be a candidate. Roberti declines to comment. He worked for Zale from 1981 to 1987, when he led upscale Zale unit Brooks Banks & Biddle Co.

But as Zale directors have learned, identifying candidates is the easy part while nailing down contracts is something else. Indeed, in December the board appeared close to snaring Harold Kahn, president of Montgomery Ward Co. Kahn was even looking for a home in Dallas and expected to be on board early January. But as lawyers negotiated the details of the contract, the deal fell apart.

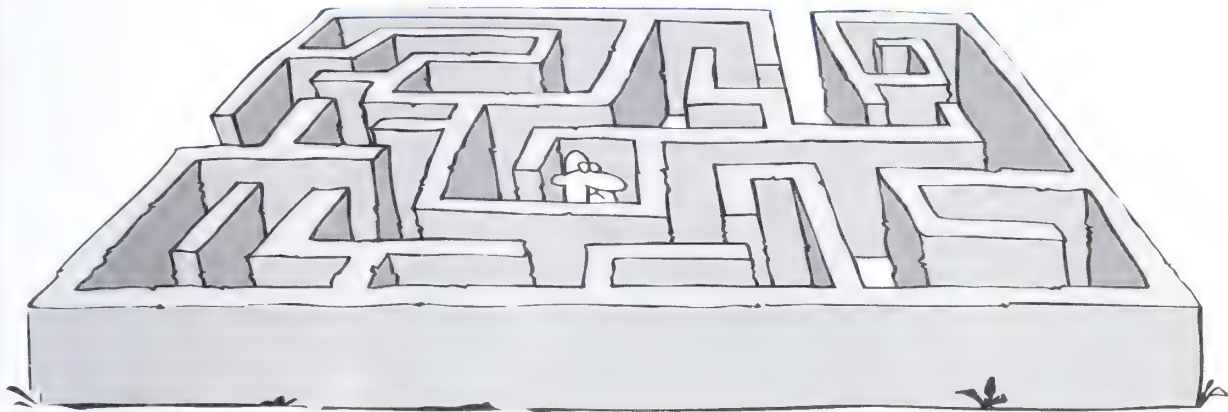
TIGHT LIPS. Kahn, who subsequently agreed to head the Abraham & Straus unit of Federated Department Stores Inc., says he was never told why the offer fell through. Marcus refuses to discuss the issue, but another source familiar with the search says the directors grew disenchanted with Kahn when he failed to contact Pollock and interim chief operating officer Andreas Ludwig to discuss the situation at Zale's.

Kahn isn't the only jilted contender. Dean G. Groussman, who joined Zale as its CEO in September, 1991 during the bankruptcy proceedings, had hoped to stay on board when the company emerged from Chapter 11. Groussman, former head of Canadian Tire Corp. and a one-time Zale executive, complains that the new Zale board spent little time getting to know him. "We just reached a mutual agreement that we wouldn't be able to work together," he says.

For now, Zale's biggest shareholders are backing the board, a few are taking Glatstein's court action seriously. The CEO candidate that Glatstein is pushing—former Zale Vice-Chairman Leo Fields—has no support from the board. Fields teamed with Glatstein during the bankruptcy to present a competing reorganization plan. But even the board knows that there's only one surefire way to make Glatstein go away: Fill the CEO's seat. So far, that's easier said than done.

By Wendy Zellner in Dallas

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THIS BIRD IS NO LONGER AN UGLY DUCKLING

Emerging smartly from Chapter 11, America West has its pick of suitors

It's a catchy tune: In TV commercials, the employees of America West Airlines Inc. belt out their version of the Aretha Franklin oldie, *Respect*. For years, though, the carrier got none at all: The butt of industry scorn, it was held up as a classic case of overambitious expansion in the giddy 1980s. Few expected the heavily leveraged line to survive after filing for bankruptcy in June, 1991.

The doubters had it wrong. In 1993, a revitalized America West earned \$37 million, second only to industry star Southwest Airlines Co. Now poised to emerge from Chapter 11, America West has suitors lined up to bid for a controlling interest. On Feb. 24, the America West board will select the best offer before submitting it to creditors and a bankruptcy judge. In the few days before that deadline, there is likely to be plenty of fireworks.

"AN INSTANT WAY." The latest suitor: a group led by Texas financier David Bonderman. It was Bonderman's Air Partners LP that teamed up with Air Canada to bring Continental Airlines Inc. out of bankruptcy last year. A spokesman says Bonderman now wants to link Phoenix-based America West to Houston-based Continental's network, including the rapidly expanding low-cost, short-

haul Cal Lite, which copies Southwest.

Bonderman won't comment, and the details of his offer, made in early February, remain sketchy. But Continental says it is also considering taking a minority position in America West, in conjunction with Air Partners' bid. Analysts say such a marriage makes sense. Both airlines have lower costs and more flexible work rules than their larger competitors. And as Continental scales back service at its Denver hub, it needs to bolster its position elsewhere in the West. With America West, says Gregory P. Kaldahl, marketing director at airline consulting firm Avitas Inc., "there's an instant way to do that."

The problem: America West's unsecured creditors' committee, which ultimately must sign off on the plan, may balk at the Bonderman proposal. For starters, Bonderman will have to top an earlier bid from investor Michael Steinhardt for \$250 million. So far, say sources close to the committee, Steinhardt appears to have the edge—largely because his plan goes further toward paying off creditors, which include

such suppliers as Airbus Industrie Aviall Inc., an engine-repair company. Moreover, the cash infusion would leave America West in a stronger position to compete against Southwest.

Complicating matters is those creditors' turbulent relationship with Continental Executive Officer William Franke, who made a name for himself in Phoenix by restructuring Circle K Stores and Southwest Forest Industries, joining the airline's board in September, 1991, after rallying a group of local businessmen to invest \$15 million in the company. A year later, he led a bitter takeover coup that ousted Chief Executive Officer co-founder Michael J. Conway.

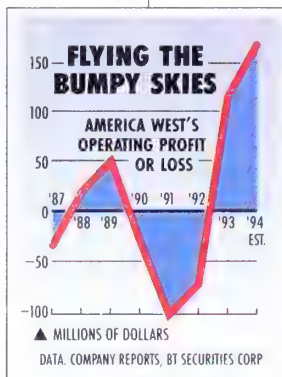
BOARDROOM BOND. Franke has the backing of GPA Group, the plane lessor that is the airline's biggest secured creditor and currently is heavily represented on the America West board. But so are unsecured creditors privately financing Franke for installing himself as chief executive. Many retain close ties to Conway, and some of them say that Conway has been talking to Steinhardt about playing a role at a reorganized airline. The Bonderman group, in the meantime, says it would retain Franke as CEO. According to Franke, "the focus of the board is to find a plan everyone can agree upon. But that may be wishful thinking."

Conway will say only: "I still feel a close bond to America West." It was under Conway that America West finally came out of its long nosedive. He sharply scaled back operations, cutting unprofitable routes to such far-flung places as Japan and Hawaii, and reducing the number of aircraft from 123 to

Conway also slashed work force from 14,000 to 11,000. The airline's capacity utilization and operating margins improved dramatically.

Will Conway return? Franke wants to keep him, and he may have more card to play: his group of investors. On the possible participation, Franke says, is Carl Pohlman of Minneapolis, who owns the Minnesota Twins baseball team and was once a director of Texas Air Corp. Such a bid, though, would also have to get past America West's creditors. And it would have to top some deep-pocketed competitor. America West suddenly has all the spect it could want.

By Eric Schine in Phoenix and William Zellner in Dallas, with Joseph Weber in Philadelphia



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THINKING SMALL AT DELL

will sell a notebook computer made by AST as a stopgap product

Nine months after it pulled its flawed notebook personal computer off the market and trashed conceived blueprints for models still in lab, Dell Computer Corp. is set to announce a return to this booming market. But don't look for a grand reentry. The machine Dell will unveil shortly imply a stopgap product purchased from rival AST Research Inc. Dell's goal: reestablish a presence in the notebook market while its designers struggle to complete their own product. "When you have to jump on a treadmill going 180 mph, you get someone to lend a hand," concedes Dell CEO Michael Dell.

FRENZY. Dell's move may make a situation bearable. Reselling the AST machines can't offset the \$38 million loss that analysts predict Dell will report in March. But Dell can't afford to ignore a market that should grow by 17% this year, says market researcher International Data Corp. Indeed, analysts say more than 3% of Dell's fiscal 1994 sales came from notebook computers, compared with 20% at rivals such as AST and IBM. Meanwhile, Dell is spending time in the lab with manufacturing partners—including Sony Corp., say former managers—to develop a full line of mobile computers.

Some critics say that Dell's recovery plans are already slipping. Its own notebook won't be ready until summer, says former Dell manager John Biebelhausen, who now works at IBM's Ambra Computer Corp subsidiary. That's slow for an industry where products are on shelves for only five to seven months. Dell executives, who declined to discuss the product, warn against judging notebook plans based on its AST misadventures. "It took us a while to screw this up, and it will take a while to fix it," says Michael Dell. The question is, can Dell do so quickly enough to regain lost ground?

By Peter Burrows in Dallas



BRAMWELL: "THERE HAS NEVER BEEN ROOM OVER THERE FOR TWO STARS"

STAR WARS AT GABELLI

Did a clash of egos prompt Liz Bramwell to open her own shop?

Elizabeth R. Bramwell admits that the past couple of weeks have left her shaken. For years, she had fancied the notion of moving out from under the shadow of her famous boss, money manager Mario J. Gabelli, and hanging out her own shingle. But as recently as a month ago, Bramwell hadn't imagined she would be sitting behind an empty desk in an empty office in midtown Manhattan, ordering new business cards and office supplies. "It was a very abrupt move," she says.

Indeed it was. On Feb. 10, Bramwell jolted the investment community by announcing that she was leaving Gabelli Growth Fund—Gabelli's third-largest—to launch her own money-management firm, Bramwell Capital Management. One of Wall Street's top professionals was striking out on her own.

Was this a clash of egos? Mario Gabel-

li, whose firm's 11 funds manage \$2.6 billion in assets, declined to comment. A statement from the company merely cheered Bramwell's entrepreneurialism and noted that Gabelli and a team of analysts would assume responsibility for the fund until a successor is found.

OUTRANKED. But Bramwell suggests that Gabelli may have felt threatened by her fund's performance. Gabelli Growth's 114.4% return over the past five years has earned it a ranking of 193 out of 1,399 mutual funds tracked by Lipper Analytical Services. Gabelli Asset Fund, the firm's crown jewel (managed by Mario Gabelli), ranks 337 based on its 98.1% return during that period—slightly below the Lipper universe average. Says Bramwell: "There has never been room over there for two stars."

Bramwell, who met Mario Gabelli 25 years ago when both were students at Columbia University's business school, gained fame in the late 1980s by racking up hefty returns in growth investing. She joined Gabelli's firm in 1985 after running a hedge fund at William D. Witter Inc. Starting with a portfolio of small-capitalization, value-oriented stocks in communications and technology, she jumped in 1990 into big-

cap, recession-resistant companies such as Corning Inc. and Gillette Co. Her fund grew from \$100 million in assets at its April, 1987, inception to \$675 million and produced an average annual return of 16.8%. An investment of \$10,000 at the beginning of her tenure would be worth \$28,380 today.

Lately, though, Bramwell's performance has been disappointing. The fund returned 11.3% in 1993. Bramwell says she was hurt by a lack of staff support at Gabelli, where she had one analyst and an administrative assistant. "I didn't see why my record should suffer and the stockholders should suffer because [Gabelli] didn't want to commit more resources," she says.

Bramwell says her decision to resign was sealed with a dispute over her refusal to relocate her office from Manhattan to Rye, N.Y., where the company has been headquartered for two years. Now, safely ensconced in the city, she won't discuss details of her new business—but says it will probably follow a strategy similar to the one she practiced at Gabelli Growth Fund. She's busy trying to find a sharp support staff. Investors, she says, are no problem: "I'm sure they're going to find me."

By Ron Stodghill II in New York



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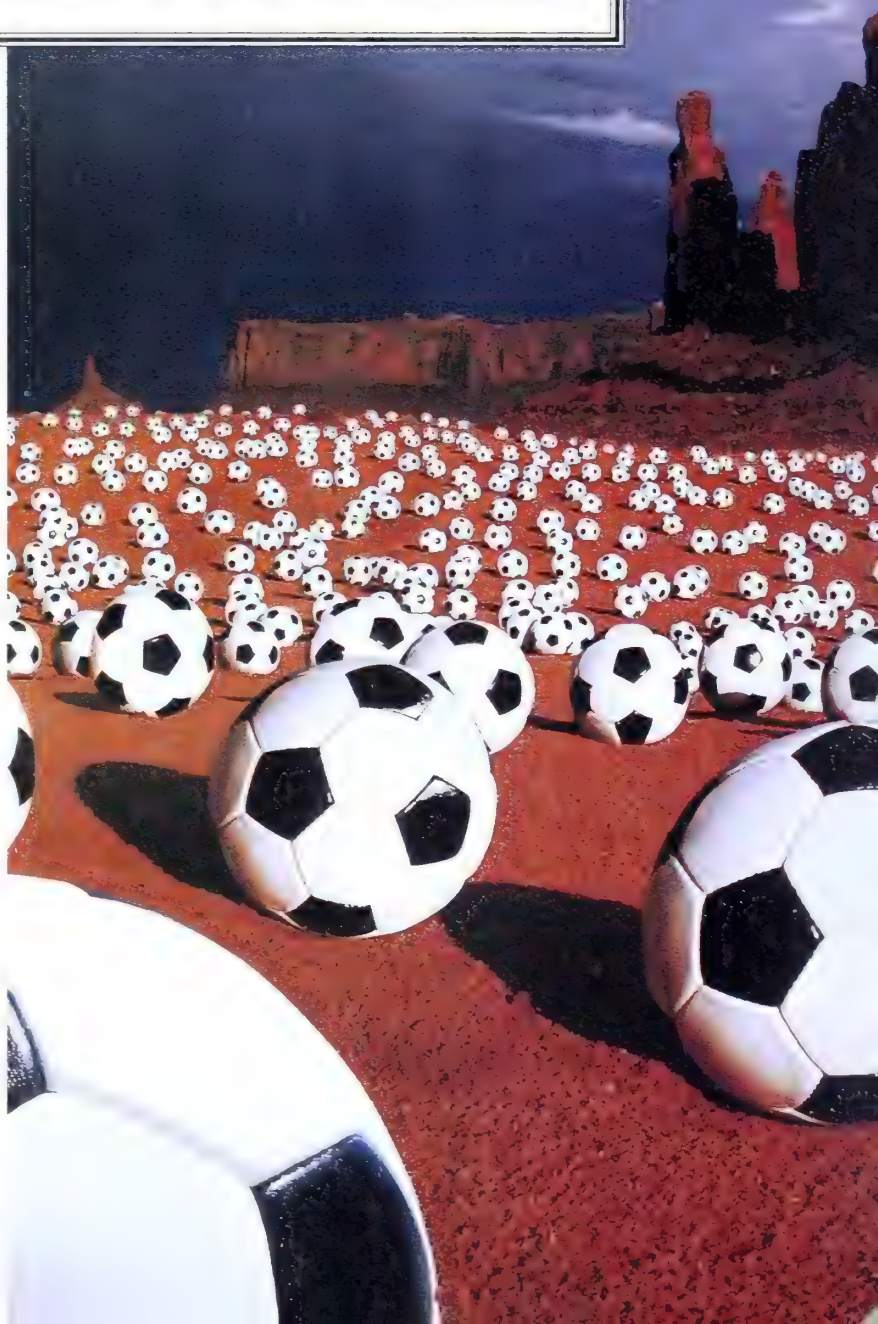
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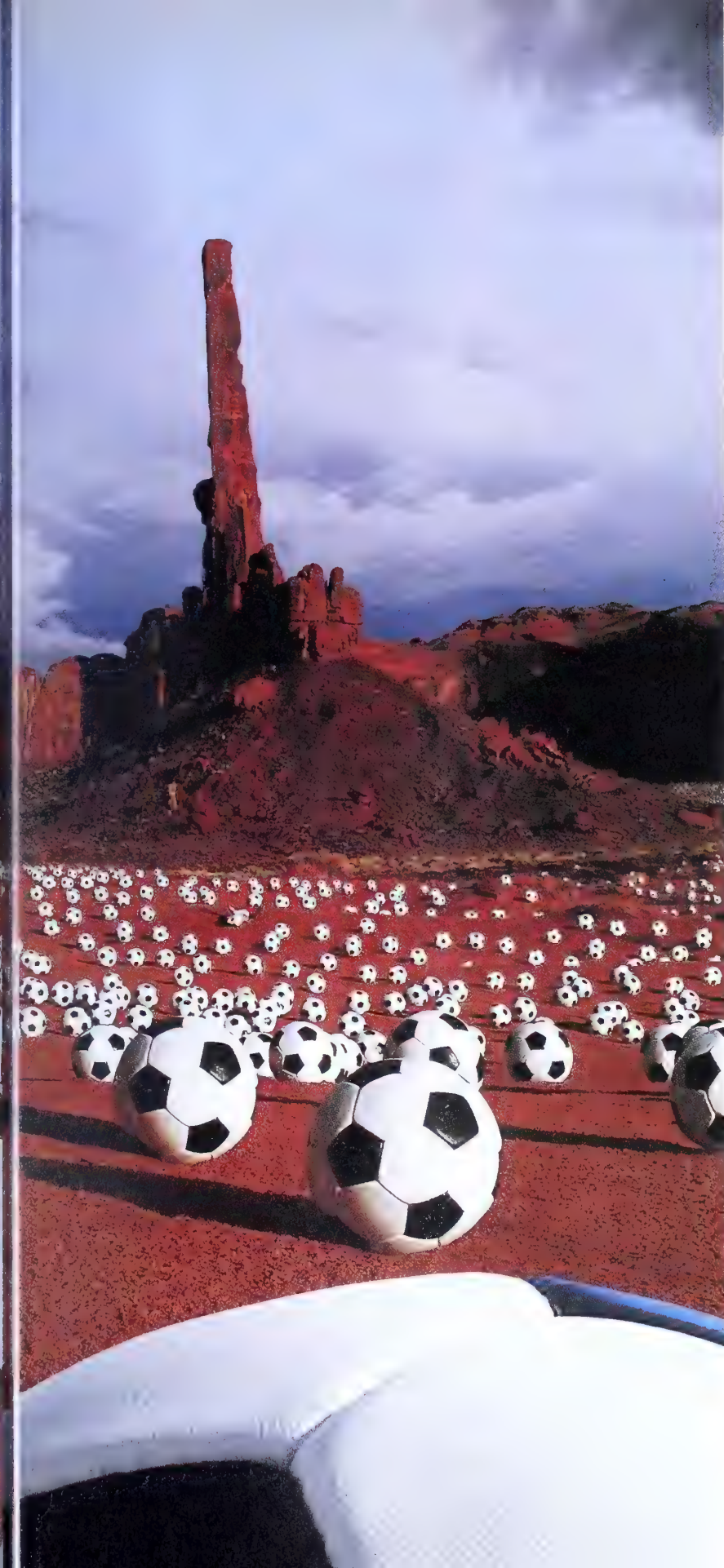
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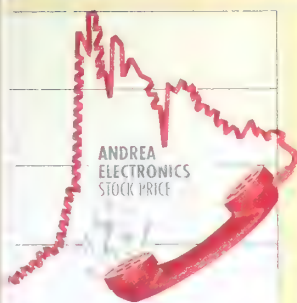
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EDITED BY KEITH H. HAMMONDS

S. SURGICAL'S CLIP ECLIPSED

Johnson & Johnson can keep selling Ligaclip applicators. On Feb. 16 a federal jury ruled that the Ligaclip device, used to seal off blood vessels in such procedures as gallbladder removal, does not infringe on the patent for U.S. Surgical's Endo Clip. J&J induced its pistol-like applicator in 1991 and quickly grabbed \$1 million in revenues—much less than it at U.S. Surgical's expense. Profits and stock price have plummeted since. U.S. Surgical said it would appeal the jury decision; it also said it had hired investment bankers to examine "strategic alternatives." The company's

LOSING BELL



FEB. 22, '93 FEB. 15, '94
DOLLARS

ANDREA QUIETS DOWN

Remember Andrea Electronics? Last June, the unknown company topped its Active Noise Cancellation kit, a device it said reduced background telephone noise. Speculators sent the company's stock soaring wildly. Problem was, Andrea hadn't turned a profit since 1989, and its technology wasn't proven. Baffled, the Securities & Exchange Commission launched a "informal inquiry," and the American Stock Exchange temporarily halted trading of the stock. These days, an Amex spokesman says, "trading of Andrea has been very stable." But the company says the SEC's inquiry continues.

DATA: BRIDLE INFORMATION SYSTEMS INC.

stock plunged 21% on the news of Johnson & Johnson's

AS BUYER, BANC ONE GETS THE BOOT

Banc One, a prodigious purchaser of other banks, has often described acquisitions as a "line of business." So it was something of a comedown when the Columbus (Ohio) company announced on Feb. 14 that its acquisition of Omaha's \$3.1 billion FirstTier Financial was off. The villain: Banc One's drooping stock. The value of Banc One's offer, \$712 million when the merger was announced last April, fell to \$535 million by Feb. 11. FirstTier asked for more stock, and Banc One refused—so FirstTier walked. Bank stocks generally have been depressed. But Banc One stock no longer trades at a lofty premium to other banks, making some analysts wonder if its acquisition binge is over.

A WESTINGHOUSE UNIT GOES EAST

General Electric's Westinghouse Electric chopped off another unit as part of its downsizing, agreeing Feb. 16 to sell its WESCO electrical supply company to investment firm Clayton, Dubilier & Rice. The \$340 million would help reduce Westinghouse's \$4 billion of debt. More important, the deal would allow CEO Michael Jordan to focus on core businesses, such as power generation and defense electronics. That leaves one unit still up for sale, its residential real estate development subsidiary. That should go by yearend.

BORDEN'S SWINGING BACK DOOR

The toughest job at beleaguered Borden: switchboard operator. Since Ervin

HEADLINER

REBUILDING REBUILD L.A.

Mission Impossible? Could be the case. Arco Chairman Lodwick Cook will try to revitalize a badly bruised Los Angeles economy—and, too, a battered RLA, formerly known as Rebuild L.A. As RLA's new voluntary chairman, he heads a highly visible organization that so far has not met its original mandate, set out in the wake of the 1992 riots: enticing business to build and create jobs in the inner city.



Initially led by former baseball Commissioner Peter Ueberroth, who quit after one year, RLA has been plagued by cumbersome bureaucracy, an unwieldy board—Cook will

replace four co-chairs—and hostile press. The result: Although businesses pledged \$585 million for new development, only about \$200 million has been spent so far.

"The expectations were too high," admits Cook. Now, he says, RLA will focus on nurturing small businesses. Cook brings impressive business connections. Former L.A. Deputy Mayor Linda Griego, recruited as RLA's paid chief executive, has the political savvy. Their problem: stiff competition for funds from appeals to rebuild local roads and buildings following the Jan. 17 earthquake.

By Ronald Givner

Shames arrived last summer as president, longtime Borden employees have been departing at a blinding pace—replaced in many instances with Shames loyalists from his days as head of General Foods USA and Kraft USA. Former CEO Anthony D'Amato left in December. And Shames, now CEO, has brought in newcomers to head Borden's pasta, dairy, international, and Canadian operations. On Feb. 14, Chief Financial Officer Lawrence Doza took early retirement. General Counsel Walter Kocher has resigned, and George Waydo, longtime head of Borden's disastrous snack operation, is said to be negotiating a severance package.

PRU SECURITIES CUTS A PRICE

Prudential Securities' image badly needs some polishing. Hence the debut Feb. 7 of a bold television and print advertising campaign featuring Pru's chief execu-

tive, Hardwick Simmons. Then there's this newest volley: The firm is dropping its \$35 annual fee for IRA accounts. While some mutual funds already have axed such charges, Pru says it is the first full-service brokerage to do so. Prudential Securities director of Asset Management Services Gerald Tankersley insists there is no connection between the fee change and Prudential's ongoing limited partnership litigation. Rivals say the company has to cut prices to attract customers.

ET CETERA...

- Its computer and printer sales booming, Hewlett-Packard reported higher profits.
- Maclean Hunter's directors turned down Rogers Communications' \$2 billion bid.
- The Justice Dept. charged ITT with submitting false claims for defense contracts.
- Health-care costs jumped 8% in 1993, but drugs were up 15%, a study showed.

BIG LABOR AND BIG BILL: ONE BIG HAPPY FAMILY AGAIN

Just a few months ago, the furious leaders of organized labor swore vengeance on every Democrat who backed Bill Clinton by voting for the North American Free Trade Agreement. But when the graybeards who run the AFL-CIO gather in Bal Harbour, Fla., on Feb. 21, the mood will be all kiss-and-make-up.

The reason for the change of heart is simple: Clinton's No. 1 legislative goal for the year, health-care reform, is an issue that has been a top AFL-CIO priority for decades. And there's nothing like the prospect of getting into the trenches and fighting for a Democratic cause to get labor leaders' juices flowing. But the new camaraderie could be short-lived. If, as he has hinted, Clinton abandons some key provisions of his health plan to win moderate support, labor could be in for another bitter disappointment.

SHORT MEMORIES. For now, any trouble is off in the future. Clinton is stroking the unions by dispatching not only Labor Secretary Robert B. Reich but Vice-President Al Gore to Bal Harbour. Gore will praise labor's efforts on behalf of health reform—and will likely promise Administration support for an overhaul of job-safety laws.

Meanwhile, the unions have mostly forgotten their threat to retaliate against pro-NAFTA Democrats. Few, if any, labor-sponsored candidates will challenge NAFTA supporters in Democratic House primaries. And the AFL-CIO has quietly dropped a ban on contributions by affiliated unions to the Democratic National Committee. "You can't go out willy-nilly and knock out people who've been with you 90% of the time," says International Association of Machinists official Robert Kalaski.

Instead, labor is mounting a massive effort in behalf of health reform. One goal is to keep pressure on Clinton to stick with his promise of universal coverage and to fight dilution of the proposed benefit package. The AFL-CIO's grass-roots cam-

paign will include mailings to 360,000 homes in 80 congressional districts. Volunteers from the American Federation of State, County & Municipal Employees are running phone banks to drum up support for the President's plan. And the labor federation is ponying up \$2 million as its share of a media campaign run by a coalition that includes Chrysler and American parent of American Airlines.

Of course, it won't be all sunshine and martinis in Florida. Unions, especially those representing public employees, remain jittery about the Administration's welfare-reform push.

The big fear: People who move from welfare to public-service jobs will compete with union members. "That's our primary concern," says an AFSCME official. "We don't want to see our workers displaced." Labor is also nervous about a planned overhaul of unemployment insurance, and it worries about adequate funding for Labor Dept. training programs, especially those for workers displaced by imports.

The effort to overhaul the Occupational Safety & Health Act could prove disappointing, too. Labor wants tough penalties on employers, including some criminal



GORE WILL HELP SOOTHE THE AFL-CIO

sanctions, and the draft law would require creation of work safety committees in every plant. Reich has testified in favor of strengthening the law. But business opposition is fierce, and it's not yet clear whether the Administration will mount all-out fight needed to beat a likely Senate filibuster.

But whatever the differences with the White House, the AFL-CIO wants to work them out. After all, disputes with Jimmy Carter grew into a bitter feud that helped elect Ronald Reagan. "We just have to take it on the chin," says one labor leader with a sigh. As long as Clinton stands firm on health care, the unions are prepared to take their lumps as the price of ending a long exile from the White House.

By Christina Del Val

CAPITAL WRAPUP

GENERATIONS

The "Watergate babies," the 86 House members who came to Congress in 1975 determined to change the world, seem to be dropping out in middle age. Only 16 returned to the House this Congress, and of them, two have resigned and four others have announced that they won't run again next fall. By comparison, none of the 13 surviving members of the class of 1972 has announced retirement. The class of 1974 hit the House like a hurricane, setting off a revolt that toppled committee chairmen and forced rules changes weakening the power of the leadership. But the intervening years

have been frustrating. Despite the early promise, only one Watergate baby, Interior Committee Chairman George Miller (D-Calif.), has become chairman of a standing committee.

POLITICS

White House political aides quietly hope that First Brother-in-Law Hugh Rodham decides against a run in Florida for a Senate seat. Officials, including Hillary Rodham Clinton, fear the political neophyte has little chance of dislodging Republican incumbent Connie Mack. They also fret that even a routine Presidential visit to Florida during the campaign could be attacked as Clinton dynasty-building.

AVIATION

Privatizing the Federal Aviation Administration, an idea favored by Vice-President Al Gore's government reinventors, doesn't look as if it will make it off the ground. Gore wants to make the FAA work better by turning it into a government-sponsored corporation supported by user fees. Airlines, believing that privatization could bring quicker updating of the FAA's creaky technology, support the idea. But general aviation interests, fearing higher costs, are opposed. And on Capitol Hill, many lawmakers believe that privatization could lead to cost-cutting at the expense of safety.



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NEW WORLDS TO CONQUER

The rush into developing countries is energizing the auto industry

Driving the 12.5-mile stretch of two-lane road from Shanghai to Volkswagen's sprawling auto plant on the city's outskirts is a nightmare. When they can move at all, trucks, cars, and vans maneuver around peasants lugging chickens and vegetables. But Bernd Farny, technical director of Shanghai Volkswagen, can't complain. Many of the gridlocked cars are VW Santanas, China's hottest-selling model. VW's profitable, nine-year-old Shanghai factory churns out 100,000 of the \$19,200 Santanas a year and is now gearing up to build a more sophisticated car in 1995. Within 10 years, VW expects China to be its largest operation outside of Germany, with annual sales topping 400,000 vehicles—about the number of Tauruses that Ford sells in the U.S. "It's sell cars as fast as you can," marvels Farny.

Visions of hundreds of millions of potential Chinese drivers have auto executives around the world drooling. "My No. 1 priority in 1994 is China," says W. Wayne Booker, Ford Motor Co.'s executive vice-president for international automotive operations. Chrysler Corp. is building nearly 20,000 Jeep Cherokees a year in Beijing. General Motors Corp. is assembling S-10 pickups in Shenyang, and Japanese carmakers are scouting the country for new opportunities.

STARK CONTRAST. And China is just the start. A high-octane mix of booming economies, fledgling free-market policies, and pent-up demand is shifting car sales throughout the developing world into warp drive. Already, more Czechs buy new cars than Swedes do, and Brazil and Argentina together outrank Spain. By 1998, predicts DRI/McGraw-Hill in a new Asia study, auto markets in South Korea, Taiwan, and Thailand

combined will rival Britain or France.

The contrast with the industrial world is stark. Western Europe's car market slumped 15% last year, while Japan's sank 6%. Even the rebounding U.S. market grew only 8%, vs. 12% in the developing world. Auto sales in those 167 countries will grow 44%, to 11.3 million by 1998, predicts DRI/McGraw-Hill, nearly doubling the growth rate in the markets of the industrial world, which are 2.5 times as large but saturated. "Future growth in the industrial markets will be limited," says Heinrich Reidelbach, senior vice-president for corporate

strategic planning at Mercedes-Benz, which is scouring the globe for production sites and may settle on India.

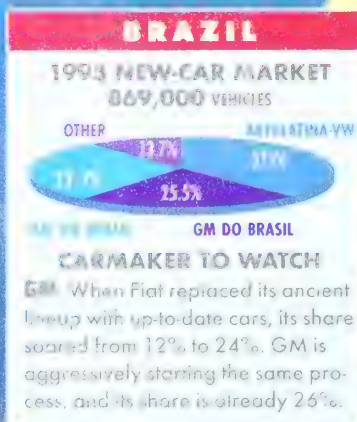
What's happening is nothing less than a redrawing of the competitive map of the world auto industry. For years, top carmakers have squared off in each other's markets. But from now on, the battle to thrive, maybe even survive, will be fought in developing countries: The Americans, Europeans, and Japanese will have to venture beyond their regional strongholds in Latin America, Central and Eastern Europe, or Southeast Asia.

Japan's auto makers are opening factories in Central Europe and Turkey, even as U.S. and European producers try to carve out niches in Asia. Boeing believes Ford's future hinges not just on exploiting the North American Free Trade Agreement to sell more in Mexico but also on aggressively expanding in the Asian-Pacific market. Other

"there's no way Ford can remain No. 2 auto maker in the world," says an executive, who wants to boost the carmaker's 2.5% market share in the Asian-Pacific region to 10% to



CARMAKER TO WATCH
FORD By shifting low-volume production of larger models back to the U.S., Ford will free capacity in its Mexican plants to turn out more low-priced compacts for the local market.



WHERE THE HOTTEST BATTLES ARE

on after the year 2000. That would se Ford's non-European overseas es from 11% of its total to 18%, says ephen J. Girskey, auto analyst at ineWebber Inc.

These efforts to expand internation- y will vastly complicate business at est major auto makers. Quality at far- ng plants can be iffy, and production 1 be disrupted by everything from la- disputes to war. And real competi- n is more costly than what has passed t that until now. "Developing coun- es were once relegated to production out-of-date models," says Rocco Cane, it's vice-president for planning. "Today are investing in high-tech, innova- e production in these countries."

FT TOUCH. Beyond that, a no-holds- rred global commitment requires pro- ers to rethink nearly every decision. gain advantages of scale, the car- kers are trying to build key models just a handful of foreign plants, which re to customize cars for the variety of rkets they'll supply. Sometimes that's y: Cars headed for Indonesia's rough ds get heavier suspensions, those it to Brazil and ina or East Africa engines that run gasohol and lead- gas.

In other cases, the difications are

more extensive. Carmakers are starting to insist that their development teams consider foreign-market demands early in the design process. Finding the appropriate balance takes a deft touch. High-tech extras can push prices out of reach: Less than 15% of Mexican consumers can afford any kind of car. Nevertheless, increasingly sophisticated buyers in the developing world don't want outdated models. For example, one of every five Ford cars sold in Mexico is equipped with air bags. "If we sell the same car that we offer in the U.S., we'll do very well here," says Masao Horie, general director of Nissan Mexicana.

Companies must also tailor their cars to tightening environmental regulations. Choked by some of the world's worst pollution, Thailand, Malaysia, and Taiwan are introducing unleaded fuels, and new cars sold in Mexico City must meet stringent antipollution guidelines. That makes the vehicles more complex. "The days of fixing engines with screwdrivers and pliers are gone," says Ford's Mexico director, Victor M. Barreiro.

Marketing in the developing countries is different, too. Andrej Barčák, GM's Prague-based sales director for Central Europe, aims Opel Corsa advertising at those in their 30s, instead of 18- to 25-year-

olds as in the West. "Here, [younger buyers] can't even afford bicycles," he says. Toyota builds brand awareness in Beijing by running a driving school. Yet as Mazda Motor Corp. found in the Czech Republic, sometimes all it takes to woo buyers is modern showrooms and three-year warranties. "I felt like a real customer," says electronic-goods importer Eduard Snek, 33, showing off his \$28,000 Mazda 626.

DESERT STIFFED. So far, the Japanese have been especially aggressive in adapting vehicles to other markets: Nissan Motor Co. has just introduced a station wagon designed for Thailand, where consumers are increasingly switching from pickups to cars. By contrast, U.S. carmakers have been laggards. Despite the pro-Americanism after Operation Desert Storm, for instance, Japanese carmakers took 61% of Kuwait's car and truck sales in 1992, compared with 30% for GM, Ford, and Chrysler. "Most U.S. manufacturers only pay lip service to the export market, with the exception of their European subsidiaries," says Amin Kadrie, chief operating officer of Alghanim Industries, GM's distributor in Kuwait.

Although each of the Big Three has a redesigned small or full-size pickup, none brought out the version Kadrie says represents 80% of the developing world market: a small, crew-cab truck with a one-ton payload. Indeed, sales of GM's \$17,200 S-10 compact pickup assembled in China have been slow. The cab seats only two people comfortably, and since most cars in China are driven by chauffeurs, the S-10 is basically a one-person vehicle. GM says the S-10 will be replaced in 1995 by a new Sonoma pickup and a Blazer utility vehicle better suited to China's needs. Some will be four-door models.

Changes at the top may finally be breaking down Detroit's parochialism.

For the first time, each of the Big Three is headed by a chairman who has worked overseas. "It's a slow process," says Richard C.

Nerod, a GM vice-president, "but there are more people paying attention."

Take Chrysler, which gets 1.5% of its unit sales from the developing world. Except for its Jeeps, Chrysler's cars have been too large or uncompetitive to sell in such markets. But the new subcompact Neon and Cirrus and Stratus compacts are the right size. Chrysler

POLAND

1993 NEW-CAR MARKET
224,000 VEHICLES

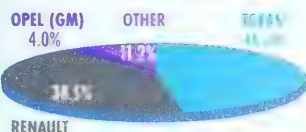


CARMAKER TO WATCH

FIAT Rapidly building on its early market entry, Fiat now uses one of its two local plants as the sole source of the Nuova Cinquecento city car for all of Europe and has just added kit assembly of the Uno.

TURKEY

1993 NEW-CAR MARKET
397,000 VEHICLES



CARMAKER TO WATCH

TOYOTA Its new assembly plant, due to start production in 1995, leads a wave of Japanese and Korean carmakers moving into this market.

*FIAT'S LOCAL JOINT VENTURE

CHINA

1993 NEW-CAR MARKET
427,000 VEHICLES



CARMAKER TO WATCH

VOLKSWAGEN Through two separate joint ventures, VW is rapidly expanding local assembly capacity while building a nationwide service network.

wan. GM, which gets only 4% of its auto sales from Brazil, is planning a series of relying on U.S. staff. GM is having its Brazilian unit design and build a small pickup for the Mideast, Asia, and Europe.

GM's rivals are following a similar strategy. The VW division of Autolatina, a Brazilian venture owned 51% by VW and 49% by Ford, has been

a new version of the VW Santana for China. Chinese engineers

Latin engineers to China, as part of the \$10 million design project. In Eastern Europe,

base by purchasing the majority of Poland's state-owned P.M. The company makes Poland's

car, 80% of which are exported to the rest of Europe.

RAPID VICTORIES. VW is more adventurous. It has plans for a joint venture with Toyota affiliates and suppliers across Europe. The company is also looking for local content rules—though a scarcity of top-notch suppliers causes problems. VW's Shanghai plant has sought more Chinese-made components to meet gov-

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PROUD IN PRAGUE: THE SNEK FAMILY AND THEIR NEW MAZDA

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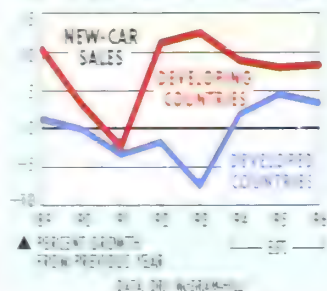
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WHY THE DEVELOPING WORLD?

UNSATURATED MARKETS...

COUNTRY	PEOPLE PER CAR
CHINA	680.0
PHILIPPINES	131.0
THAILAND	70.0
BRAZIL	14.0
MEXICO	12.5
SOUTH KOREA	7.0
POLAND	6.0
JAPAN	3.0
EC	2.5
U.S.	1.7

...WILL GROW THE FASTEST



Sprint
recognizes
playful
voices.

Can you recognize this individual?
We can.

That's because Sprint is introducing



their new voice recognition technology:
a voice activated FÖNCARD.SM A system
specially designed to make life
easier for the VIP on the go as
well as the MVP on the run.

With it, key players can use
their voices not only for identi-
fication, but as a way to virtual-
ly "dial" any ten phone
numbers of their choice.

Just by voicing an audible when they
are on the line. And that means ten less
numbers to remember.

The voice activated FÖNCARD is
part of the Sprint Priority Gold package
which also features other services that
will enhance your record on the
road—even if you aren't a quarterback
like Steve Young.

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special recognition for special people.
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Sprint

PRIORITY

GOLD



Sprint.

**VOICE ACTIVATED
FÖNCARD**

Sprint.



HERE'S TO 'OLD PALS'

This in-group spawns hot companies

JOHN J. MELK
57
Chairman
H2O PLUS
CINDY MELK
31
Executive vice president
H2O PLUS

tops \$1.6 billion. Add in a of private ventures, and group is worth tens of million more than that (table).

Huizenga, one of the founders, is by far the most illustrious of the crew. Blockbuster, which he guided to sales of \$2.2 billion in six years, is the of the loose federation WMX offspring. But he much of his success to exceptionally close cad friends and business

ciates. Part social club, part investment society, the group deep source of capital and business advice.

"NO RECEIVABLES." Peer Pedersen, a powerful Chicago lawyer and longtime club member, it this way: "Our collegial proach is quick and efficient: we see an idea, we throw our energy and money behind it. In late January, they did just what Pedersen persuaded Melk, L. Buntrock (still chairman of WMX), and Flynn (a former of Thur Andersen & Co. account who for years was Waste Management's chief financial officer) to put \$1.2 million each behind a new chain of Chicago-based urban grocery stores specializing in fresh produce.

Given the frenetic schedule H. Wayne Huizenga has kept over the last few months, you'd surely think his social life would take a backseat to his business interests. Not only did the stocky chairman of Blockbuster Entertainment Corp. embroil himself in the acrimonious battle for Paramount Communications Inc. by agreeing to merge with its eventual acquirer, Viacom Inc.—he also took over the National Football League's Miami Dolphins.

For Huizenga, however, business and pleasure are often the same thing. So it's no surprise that his private BAC 111 jet touched down in Boston on Feb. 5 for the 50th birthday party of close friend A. Clinton Allen III.

Allen is the vice-chairman of fledgling Psychomedics Corp., a \$6.6 million public company that conducts workplace drug-testing programs using samples of human hair. Allen also sits on the board of Blockbuster, which—thanks to Huizen-

ga—is Psychomedics' biggest customer and shareholder. Also at the party were buddies John J. Melk and Donald F. Flynn, chairmen of H2O Plus and Discovery Zone, respectively. Both are directors of Blockbuster and Psychomedics. Huizenga put money into H2O Plus. Blockbuster helped finance Discovery Zone.

Confused yet? Welcome to the "Old Pals' Club"—a tightly knit group of wealthy entrepreneurs and their offspring who have co-invested their way to controlling some of the hottest companies on Wall Street. Many of them owe their initial fortunes to Chicago-based WMX Technologies Inc., which 25 years ago they began building into the world's largest collector of garbage and chemical waste. (It used to be called Waste Management Inc.) But since the mid-1980s, several have stepped out on their own to create four other public companies that, when combined with WMX, have a market value of \$26 billion. Based on their ownership stakes in all five companies, the Old Pals' combined net worth

Lately, however, the Old Pals' young offspring have been getting many of big headlines. Most notable is Scott Beck, the 35-year-old son of Lawrence Beck, the 35-year-old son of Lawrence Beck, a WMX founding partner. Working as an investment adviser in 1986, the younger Beck spotted a Texas video chain called Blockbuster and by 1987 had persuaded Huizenga and others to invest in it. Then, with early backing from Melk, Pedersen, Flynn, he bought Boston Chicken Inc. in 1992 and turned it into 1993's most spectacular initial public offering. Beck is thinking big: Now at only \$42.2 million in sales, Boston Chicken is aiming to double its number of outlets, to 450, by yearend.

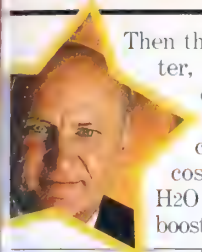
Flynn also backed the idea of his 26-year-old son, Kevin, to take over Discovery Zone in 1992. The innovative, 165-outlet chain of indoor playgrounds became another hot IPO last year.



SCOTT A. BECK
35
Chairman
BOSTON CHICKEN



A. CLINTON ALLEN III
50
Vice-chairman
PSYCHEMEDICS



WAYNE HUIZENGA
56
Chairman
BLOCKBUSTER
ENTERTAINMENT

Then there's Melk's daughter, Cindy, the 31-year-old executive vice-president and creative director of cosmetics-store chain H2O Plus. She aims to boost sales from \$27 million to \$200 million by 1998. Slightly jealous of the hundreds of millions reaped by Scott Beck and Kevin Flynn

their public offerings, she, too, vows to public "sooner rather than later."

The common thread tying most of the clubs together is a fascination with service businesses that are able to spin out long rivers of cash. "No receivables, no inventory, no manufacturing," is how Donald Flynn sums up the ideal company. High-tech Psychemedics is about as far afield as the group is willing to

The company struggled for years to crack the drug-testing industry before finally making a profit last year. The Psychemedics experience has only reinforced club members' inclination to stick with what they know best: consumer-oriented service businesses.

COMFORT LEVEL. From Blockbuster to Boston Chicken, the group has displayed a talent for rapidly rolling out hundreds of company-owned and franchised outlets—and managing the growth without overheating. Club members credit WMX, which began as a collection of far-flung trash haulers and landfills, with teaching them how to manage a network of small operations. Blockbuster provided the initial foundation in retailing, plus experience in real estate site selection and management. It's no coincidence that Blockbuster and Boston Chicken outlets are often positioned near one another. And the other chains have borrowed liberally from Blockbuster's expertise in mail computer systems and operations. The club's biggest benefit, however, is a deep pool of capital. Take Blockbuster: Eager to ramp up the nascent video rental chain in late 1987, Huizenga and the other directors were poised to raise \$4 million in new equity on Wall Street when the stock market plummeted on Oct. 19. "Our stock crashed and burned, but we still needed the capital," Flynn recalls. Enter Buntrock, Pedersen, and Huizenga's parents. Within days, the money was in the bank. Only a few months ago, H2O Plus was considering a \$10 million private placement with institutions when Pedersen suggested Melk use it all from the club instead. "I said: let's just get our pals together," Pedersen recalls.

As close as the group is, not everyone

participates in every deal. But each member typically gets a peek, usually through Pedersen, a conduit for many prospective investments. Huizenga, for example, hasn't yet offered his buddies any pieces of his growing portfolio of professional sports franchises. "You don't put friends in deals that don't give returns," he explains.

Trust within the network is key. Due diligence is often a friend's word. Faith

THE WMX CONSTELLATION

PUBLIC COMPANIES

COMPANY	SALES	NET INCOME
WMX TECHNOLOGIES <i>Garbage and chemical waste disposal</i>	\$9.1 billion	\$452 million

BLOCKBUSTER ENTERTAINMENT** <i>Video-rental chain, record stores, movie studios, and TV production</i>	\$2.2 billion	\$244 million
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DISCOVERY ZONE <i>Children's indoor-playground chain</i>	\$56 million***	\$3 million***
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BOSTON CHICKEN <i>Rotisserie chicken restaurant chain</i>	\$42.5 million	\$1.6 million
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PSYCHEMEDICS <i>Drug-testing service using hair samples</i>	\$6.6 million	\$953,108
---	---------------	-----------

PRIVATE COMPANIES

H2O PLUS <i>Cosmetics-store chain</i>	\$25 million	Lost money
---	--------------	------------

SILVER EAGLE RIVERBOAT <i>Joint-venture partnership operating a floating casino on the Mississippi</i>	\$31.2 million	N.A.
--	----------------	------

WJB TV <i>Operates wireless cable systems in Florida</i>	\$15 million	N.A.
--	--------------	------

*All data for 1993 **Has agreed to merge with Viacom Inc. pending shareholder approval ***estimates

DATA: BUSINESS WEEK, COMPANY REPORTS

comes from years of doing deals together—with few mishaps—and plenty of time spent socializing on golf courses, boats, and as neighbors in Chicago and South Florida. Pedersen recalls that Flynn broached to his friends the idea of an investment in Discovery Zone while yachting with them in the Mediterranean. "Someone else might not have touched this one," Pedersen says. "But I thought, if it was good enough for Don,

it was good enough for me." Huizenga agrees: "We've been together so long, there's a different level of confidence."

The training ground was Waste Management, which brought together a collection of tough entrepreneurs who gobbled up mom-and-pop companies while battling with regulators and weathering a string of price-fixing and environmental suits. "These guys were working like dogs," recalls Cindy Melk, who says she rarely saw her globe-trotting father. In an office nearby, John Melk reminisces that Waste's culture encouraged entrepreneurs. "You didn't need a degree or special qualifications, and you took on tremendous responsibility," he says. Buntrock is the only member of the club still active at WMX, although Flynn, Pedersen, and Peter Huizenga are directors and shareholders.

By the early 1980s, many Waste Management executives were becoming restless. Huizenga left in 1984 and built a portable-toilet and lawn-care business in Florida. That same year, Melk resigned to take up real estate in Chicago and Fort Lauderdale. Flynn began winding down in 1987. Although dispersed around the country, they stayed in touch. They also kept tabs on other professionals, such as Pedersen and Merrill Lynch & Co. investment banker Charles A. Lewis, whose firms did work for Waste.

"RINKY-DINK." Blockbuster, the first big deal, didn't exactly set off a stampede. "Video sounded pretty rinky-dink to me," recalls Melk, who was the first Waste Management alumnus (besides his father) Scott Beck contacted when he spotted the chain. Why? Melk had been head of Waste Management's international operations in London when the younger Beck came to board with him as a student. Beck quickly started trading silver futures—and Melk was forever impressed.

Melk eventually bought in, as did Huizenga, Flynn, and Pedersen. Huizenga, who had sold his toilet business back to Waste Management in the mid-1980s, became chairman, and Scott Beck went on to become Blockbuster's largest franchisee. In 1989, Beck mimicked Huizenga when his franchise group sold



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Chairman
DISCOVERY ZONE



PEER PEDERSEN
68
Attorney



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their stores back to the parent company for \$117 million in Blockbuster stock. That stake helped Beck buy Boston Chicken in 1992.

Such wheeling and dealing among the club's private and corporate interests is common. Melk and Flynn, like Scott Beck, became Blockbuster franchisees to help the young company grow, only to sell the stores back later for big profits. Another longtime friend, George D. Johnson Jr., sold his Blockbuster franchises to the parent last August for Blockbuster shares valued today at \$180 million. Blockbuster helped Flynn and his sons launch Discovery Zone by taking a 21.3% stake—since diluted to 19.6%—for \$10.3 million, ahead of the public offering last June. Insiders hint that they may ultimately merge: Blockbuster has an option to gain majority ownership from Flynn.

GRANDDADDY'S GRIEF. Are the relationships too incestuous? Some think so. Boston Chicken has been hit with a shareholder suit charging that insiders—who had bought shares in private deals for as low as \$2.97 a share—unfairly benefited from the IPO. The price shot to a first-day close of \$48.50 a share from \$20, and, because of huge demand, most

individual investors got in at the higher price. The suit is pending. Meantime, a number of Blockbuster shareholders, unhappy with the Viacom merger price, have filed four suits to block the deal as it stands.

For the most part, though, the group's success—measured largely by Blockbuster—has silenced the critics. Other franchise owners contacted by

Is the circle too incestuous? Well, Wall Street isn't griping much about the profits created by the WMX club

BUSINESS WEEK aren't worried about the insider deals. And Wall Street largely appears enchanted with the coziness. Boston Chicken owes its current share price of about 44 (80 times future earnings) to Beck's connections. Says Paine-Webber Inc. analyst Craig Bibb: "They rub off on each other positively."

They'd better. While it's clear that chains such as Boston Chicken and Dis-

covery Zone are well financed and efficiently organized, they will face plenty of competition as they try to live up to Wall Street's expectations. PepsiCo's is aggressively chasing Beck's rotisserie-chicken niche. And franchising McDonald's Corp. has targeted Discovery Zone with a new unit called Life & Bounds. H2O Plus is growing nicely but it has yet to turn a profit. It counts on Body Shop and others to make it a run for its money.

The granddaddy of them all—WMX—having its own problems. Poor earnings of late have sent the stock down 32% from a 52-week high of 39. And the Pals' Club has certainly had some floundering. When Huizenga, Pedersen, and Buntrock dumped \$10 million into oil tanks in 1979, they came up with nothing more than tax write-offs. More recently, Pedersen, Buntrock, and Lawrence had to refinance Burnham Broadcast Co., an owner of TV stations in which they each invested \$3.5 million in 1987. By and large, though, the WMX club has cleaned up on its string of investments. It's hard to argue with a stock portfolio worth \$1.6 billion.

By Richard A. Melcher in Chicago, Gail DeGeorge in Fort Lauderdale, Fla.

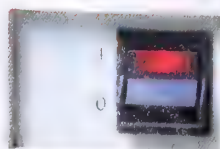
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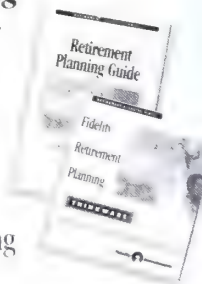
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Commentary/by Joan O'C. Hamilton

A LITTLE DOSE OF GOVERNMENT WON'T KILL BIOTECH

For months now, biotech executives have used words such as "catastrophic" to describe health-care reform. The industry's lobbying group, BIO, has even accused President Clinton of turning his back on medical research, on competitiveness, on food safety, and on AIDS. BIO is agitated over a Clinton plan to create a price-review committee for wonder drugs that have no competitors. The committee wouldn't set prices. But the industry fears it would jawbone them down and says that threat is driving away investors, who are needed to finance most biotech research until companies can turn a profit.

There's nothing wrong with aggressive lobbying, but BIO's chicken Little campaign contradicts reality. The health-care proposals haven't hurt yet: For all their handwringing, biotech companies raised \$3 billion or more in 1993, their second-best year ever. And a dozen companies have registered to sell more stock, usually a sign of a friendly market. Not every startup has all the money it wants, but that's because 200-plus public companies are fighting over the pot. In the end, moreover, Clinton's proposal—review board and all—may benefit biotech by complementing current market-place trends that already favor the industry.

THE PRICE IS RIGHT. One is a move toward value pricing. Drug makers prospered in the 1980s by raising prices relentlessly even as their lackluster sales turned out chorus lines of me-too products. Now, managed-care companies, insurers, and other bill payers have a reasonable demand: prove that a drug is worth its price. Such "pharmaco-economic" analysis looks at a drug's economic impact on total patient care: A pricey drug that prevents complications or replaces other costlier procedures could still be called a bargain.

Virtually every biotech company is already doing such analysis—and hustling to turn out products that shine under this light. A case in point is Chiron Corp.'s test for finding hepatitis

C in blood. By preventing transmission of the virus through transfusions, Chiron says, the test has saved \$500 million in treatment costs and kept a million people worldwide from being infected. So nobody is begrudging Chiron its \$75 million annual profit.

Beyond that, health reform may hasten moves to streamline drug marketing. Part of the reason biotech com-



panies had to raise so much money was to compete with the huge sales forces of established drugmakers. But as hospital chains and managed-care companies consolidate their buying—a trend the Clinton plan would reinforce—the need for squadrons of salespeople evaporates. "We're looking at 50 core health-care customers" instead of thousands, says Dennis Houghton, director of managed care for Synergen Inc., "and we have technology that can make a difference."

Biotech executives do have a legitimate worry over the criteria used to determine a new drug's value. Clinton's plan is vague on this. Pulmozyme, the new Genentech Inc. drug that

breaks up mucus in the lungs to help cystic fibrosis sufferers breathe, shows how much room there is for subjectivity. Genentech says the drug will cost \$27 a day, or \$9,800 a year. That's stiff, so Genentech prepared analyses to show that Pulmozyme reduces use of antibiotics and hospital stays to treat infections. Genentech says Pulmozyme saves \$3,600 a year for the average patient. That still leaves \$6,200 in costs, however, so the question becomes: How much is it worth to help children play and adults work? Is it \$620 or \$6,200 or \$62,000 a year?

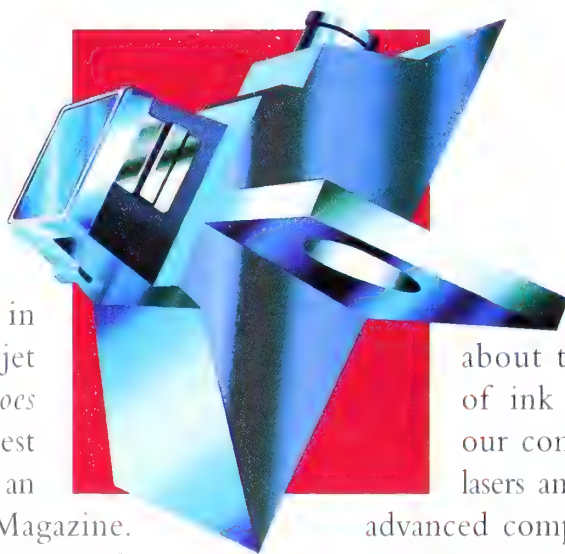
There is no right answer, of course. Proponents of price reviews, such as drug industry critic Senator David H. Pryor (D-Ark.), say that's why there should be informed discussion on prices—to develop reasonable criteria. Bureaucratic that may be, but it's hardly catastrophic for companies with their ducks in line. Pryor hasn't complained about Genentech's Pulmozyme analysis, for example. And major insurers such as Aetna and Blue Cross/Blue Shield say they'll pay for the drug. There's no reason to believe a committee would disagree.

DANGEROUS GAME. Industry executives also fret that a review committee might embrace a profit formula based on a drug's manufacturing costs. That, in fact, would stifle research. As Genentech CEO G. Kirk Raab notes, biotech margins must be high enough to help recoup investments in products that don't pan out. If the committee is created, its dabbling mustn't lead to price controls: Experience shows that they never work well in any industry.

Labeling a less onerous review of prices an unmitigated disaster overstates the case, however. And plying that argument to win a lobbying battle is a dangerous game. The argument itself might spook the capital markets. For if biotech drugs can't stand scrutiny, why should anyone invest in them?

Hamilton covers biotech for BUSINESS WEEK.

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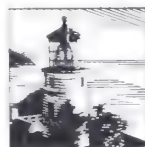
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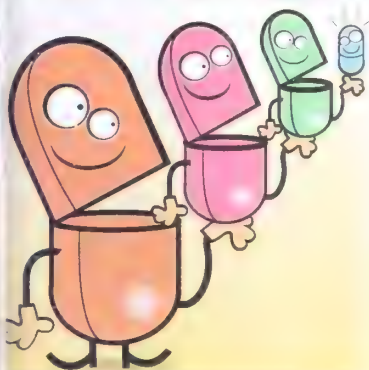
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Developments to Watch

DITED BY PETER COY

THE LAYERED LOOK COMES TO DRUG DELIVERY



An elegant new way to deliver drugs may lie in the walls of a plastic molecule built like an onion. Designed by Brown University scientist Edith Mathiowitz and her colleagues, the microsphere could release a different dose of drugs as each layer dissolves. That way, a drug could be delivered in a single injection instead of in a series.

In the Jan. 20 issue of *Nature*, the Brown scientists reported on a double-walled microsphere composed of polymers that have been approved for human use by the Food & Drug Administration. In theory, the number of layers is unlimited, but Mathiowitz says she's up to just three so far. Next, she hopes her lab can build an insulin-releasing microsphere. Biotech company Alkermes Inc. in Cambridge, Mass., which licensed the technology late last year, sees it as the next generation of drug delivery.

GAMES PEOPLE PLAY —OVER PHONE LINES

Video game companies are convinced that the next big thing on the Information Superhighway will be playing video games over the phone. But so far, the technology for doing so is fairly primitive. Virtual Universe Corp. in Calgary, Alta., hopes to change that, however, with a system that would let as many as 96 people play a game displayed on their TV sets or computers while talking with their teammates and opponents.

The prototype Parallel Universe system can work on standard phone lines, because players are sent only what's relevant to them—that is, within their game character's line of sight. For added realism, the voices of other players get louder or softer as their on-screen characters move toward or away from your character. Any kind of game could be adapted for it. Virtual Universe is looking for a partner to develop the system. Sega of America Inc.'s manager of developer relations, Stewart E. Kosoy, says Sega engineers were "very impressed" by a demonstration.

JAPANESE CHIPMAKERS MAKE A SPLASH IN SAN FRANCISCO

The chip giants of Japan continue to expand well beyond their traditional base in mass-produced memory chips. That was evident in papers prepared for the International Solid State Circuits Conference held in San Francisco on Feb. 16-18. Japan's top players trumpeted an impressive string of industry firsts—mostly in fields unrelated to conventional memory devices.

NEC Corp. described a prototype 32-bit reduced instruction-set computing (RISC) microprocessor that is low in power

consumption yet runs at a staggering 500 million cycles per second—nearly double the clock speed of today's fastest commercial processors. In the red-hot field of video-signal processing, Toshiba Corp. unveiled a chip for reconstructing high-definition TV images that have been compressed during transmission or storage. Toshiba's chip doubles conventional decoding speed by combining two processing units that work in parallel. Fujitsu Ltd., meanwhile, showed an ultrasmall indium gallium arsenide transistor that relies on quantum physics to store and switch data. According to Richard A. Kiehl, an American who is an assistant research manager at Fujitsu, his company's "resonant tunneling hot-electron transistor" is closer to commercialization than any other type of quantum-effect transistor.

DIAMONDS ARE A SCREEN'S BEST FRIEND

Take ordinary window glass, coat one side with a microthin layer of diamond, and you have the makings of an extraordinary video display. That's according to SI Diamond Technology Inc. (SIDT), a five-year-old Houston startup. Founder Howard K. Schmidt says the technology not only promises brighter displays that consume less power but also might cost less. If so, diamond screens could leapfrog Japanese strengths in liquid-crystal displays, now widely used for portable computers.

If that seems a tall order for little SIDT, consider its backers: Last fall, Microelectronics & Computer Technology Corp. (MCC), an Austin (Tex.) consortium, teamed up with SIDT to develop commercial production methods. They aim to bring the first small, 4-inch-by-6-inch, monochrome displays to market later this year—using an MCC "clean room" leased to SIDT. And in mid-February, SRI International's David Sarnoff Research Center, which specializes in video, joined up to develop a color version of SIDT's diamond screen. Schmidt hopes this will lead to hang-on-the-wall TVs by decade's end.

A CHEAPER WAY TO PUT PLANTS ON STEROIDS

Just as certain kinds of steroids help athletes build muscle, brassinosteroids bulk up plants. A Sino-Japanese team at the Shanghai Institute of Plant Physiology has created synthetic versions of brassinosteroids that can increase the yields of rice, wheat, and corn by 10% to 30%. But the formulations have been expensive to produce. Last month,



however, chemists at the University of California at San Diego said they had lowered the cost by simplifying the production process.

Beak Consultants, a Toronto environmental consulting and venture-capital firm, has financed much of the work by UCSD researchers Trevor C. McMorris and Michael Baker. It's seeking a partner to get the stuff into commercial production, probably in two years or more. The likely price, says Beak Chairman Donald L. Lush: only pennies an acre.

ROUGH RIDE FOR AN EX-COWBOY

How much can Bruce Babbitt do—even as Interior Secretary?

Bruce Babbitt is on familiar turf, meeting with ranchers, environmentalists, and local officials at Southern Utah University in Cedar City. But the reception for the Interior Secretary is hardly homey. Speaking for many ranchers who run cattle on federal land, Hardy Redd rips into Babbitt's plan to more than double grazing fees. "You don't understand how deeply these issues are felt in the West," Redd says.

Babbitt, the son of ranchers, knows all too well. He rode into Washington with Bill Clinton, promising to bring environmental consciousness to the Interior Dept.'s management of 442 million public acres. A year later, he's bloodied. His plans for reform have run into political barricades. His trade-offs with business have angered environmentalists. The President has abandoned him at crucial moments. And on Feb. 3, Babbitt was humiliated when pressure from Western Democrats forced him to fire Jim Baca, the pro-environment director of the Bureau of Land Management (BLM).

Babbitt's troubles aren't surprising. For its 145 years, Interior has mainly sold off public resources to private interests. But Babbitt pledged "a new American land ethic" at the \$7.5 billion, 75,000-employee agency. He hoped to protect America's oil, minerals, timber, and wildlife while heading off what he calls "train wrecks": litigious battles pitting resources against jobs. His goal was to win more protection for public lands and higher resource fees—in return for relaxing endangered-species laws to allow more development on private property.

BILL'S TRUST. Politics make that a tall order. The 11 states where Uncle Sam is the major landowner account for nearly a quarter of the Senate's votes. Clinton did better there than any other recent Democrat and wants to win the West again in 1996. He likes his old pal from the National Governors' Assn. and the Democratic Leadership Council. "[Vice-President Al] Gore and Babbitt are the ones Clinton trusts when it comes to the environment," says a White House

official. But Clinton sacrificed Interior agenda to corral Western votes on the budget and free trade—raising questions about his environmental commitment.

Against these realities, Babbitt pitched logic and economics. Interior, which controls 66% of public lands, has long sold rights to them at a bargain: On average, ranchers pay only one-fifth as much to run cattle on public range as on private land. And the government takes a bath. Last year, it cost \$16.6 billion to manage resources the General Accounting Office

says had yielded just \$6 billion in revenues the previous year. Worse, Interior says it will cost \$11 billion to clean up abandoned metal mines that threaten groundwater, mainly in the West. And 51% of federal range is in poor or fair condition. "It's unreasonable to tell the American people that everyone should pay their fair share except miners, timber companies, ranchers, and water users," Babbitt says.

He blames himself for the blunders in his first year. In August, he enraged Western senators—many of them Democrats—with a surprise announcement of the plan to raise grazing fees. "He thought he could come up here and work his charm," scoffs one Senate staffer. Instead, a bipartisan Senate coalition threatened to kill Interior's 1994 appropriation. Babbitt backed down.

Nor has he been able to settle key land-use disputes with the industry. In 1988, for instance, the Justice Dept. sued Florida for failing to protect Everglades National Park from fertilizer-laden water pumped south by growers. To reach an agreement, Babbitt convened talks in July, but they collapsed in December. He has also alienated environmentalists, who lobbied for his appointment, by cutting deals with private owners. Georgia-Pacific Corp., for example, got permission to log 4.2 million acres in nine Southeastern states in exchange for a handshake promise to protect the endangered red-cockaded woodpecker.

Babbitt's firing of the BLM head—on grounds of conflicting management styles—was



**HIS REFORMS
HIT POLITICAL
BARBED WIRE**

BABBITT'S SCORECARD

WINS

- ▶ He allowed California developers to build on part of the habitat of the threatened California gnatcatcher—in exchange for extra protection elsewhere
- ▶ He permitted Georgia Pacific Corp. and International Paper Co. to open land for logging in the South, provided that they protected rare woodpeckers and salamanders

LOSSES

- ▶ Two efforts to raise fees for grazing on public lands were derailed by Western opposition
- ▶ Western senators blocked efforts to impose royalties on hard-rock mining on federal lands

JURY STILL OUT

- ▶ A compromise to protect the habitat of the Northern spotted owl in the Pacific Northwest timberland awaits court approval
- ▶ A deal to protect the Florida Everglades from agricultural runoff broke down, but talks continue
- ▶ A census of plant and animal species was set up without congressional approval, but next year's funding has yet to be approved

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Environment

far more damaging. Unlike his predecessors, Baca refused to grant exceptions or waive rules for special interests. Irrigated, Western officials, especially Governor Cecil D. Andrus, who was my Carter's Interior Secretary, demand Baca's hide. Environmentalists objected, but Babbitt did the deed. "There's a saying that Babbitt and the Administration aren't as committed to reform as they said they were," says Lynn Green, vice-president of the National Wildlife Federation. Baca is blunter: "You have to stand up for principles under pressure. That's the difference between us."

Those are painful words for Babbitt, 55, who cut off ties to his own ranching heritage to come to Washington. To take his \$148,400 job, he had to sell his interest in two Arizona-based family businesses, C O Bar Livestock Co. and Babbitt Brothers Trading Co., which had given him income of more than \$200,000 a year. Reared near Flagstaff, he rode a horse almost as soon as he could walk and toted a gun before he got his cowboy's license. "Anything that moved wasn't a cow, you shot," he says.

LIVE RATTLER. He left Arizona in 1967 for the University of Notre Dame, where gradually his cowboy outlook changed, although even he isn't sure why. "The first time I walked away from a rattlesnake without killing it, I must have been about 20," he says. He went home after Harvard Law School in 1969 and was elected attorney general in 1970. When Governor Wesley Bolin died in 1978, Babbitt, Arizona's next-highest elected official, moved into the state house—at 39.

Babbitt soon found compromise the best way to achieve conservation goals. In a 1979 battle over water, Arizona's scarcest resource, he struck a deal that established the state's first groundwater restrictions. "That taught me the possibility of...consensus and trade-offs," he says. After a 1988 Presidential election he practiced law and became president of the League of Conservation Voters, an environmental group.

Babbitt hasn't given up on gradual reform. In early March, Interior proposed higher fees and such changes as fencing riverbanks to combat erosion. It may also push for rules to halt water pollution from abandoned mines. To prepare for one last try, Babbitt has spent three months roaming the West, trying to drum up support for his plan. It's a hard sell in Utah, where 64% of the state's 52 million acres are federally owned. And as long as it's tough there it will be in Washington, too.

By Mary Beth Regan in Cedar Rapids, Utah



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SAMSUNG'S RADICAL SHAKEUP

Chairman Lee Kun-Hee is fomenting a management revolution

It's 6:45 a.m. in Seoul, bitter cold, and still dark. But phalanxes of office workers pour into the lobby of Samsung Group's headquarters. Most Koreans are just beginning to stir, but virtually all of Samsung's 120,000 employees are arriving at work. Riding up a headquarters elevator, a fortysomething executive spots a 31-year-old named Kim who's sporting a light blue suit, blue-and-white-striped shirt, and tulip-patterned tie. "You're lucky," says the executive. "When I was your age, I wouldn't have dared to dress like that."

Had Samsung Chairman Lee Kun-Hee been aboard that elevator, he would

have been proud. Getting his employees to work earlier hours and encouraging greater individuality are two small signs that the revolution he's fomenting within Asia's largest non-Japanese conglomerate is taking hold.

There are hardheaded business reasons why Lee has launched a sweeping remake of the \$54 billion group's culture. He wants his executives to reorder Samsung's investment priorities, refocus its product-development and marketing strategies, and radically improve quality. The Chairman's goal is to become one of the world's 10 largest "technological powerhouses."

Samsung, widely considered Korea's most successful *chaebol*, consists of some 30 companies. Among them, Samsung Electronics Co. is the standout performer, having emerged as the world's largest maker of leading-edge memory chips. But other units, such as its consumer-electronics subsidiary, are faltering. Lee argues that the whole group, which his father started in 1938 as a rice-trading company, isn't keeping up with major competitors such as Sony, General Electric, and Philips.

Samsung used to compete on the basis of cheap labor and cheap Korean currency. Now both are gone, and the key to success is Samsung's ability to absorb and create cutting-edge technology. Except in semiconductor, however, Samsung still relies heavily on foreign sources, even in machinery and chemicals, two other sectors in which Samsung wants to become a world player. The group also has not been able to establish its own name as a world-class brand. Not counting chips, more than one-third of Samsung's exports are things that other companies put their names on. Estimated earnings for 1993 are only \$600 million, a fraction of Samsung's \$54 billion

in sales.

For Samsung to reach the next level, Lee believes he has to do nothing less than turn upside down the hierarchical, inward-looking management installed by his late father, Lee Byung-Chull. "I am telling them to change everything except how they treat their families," says the 51-year-old Lee, who took over upon his father's death in 1987. In stark contrast with his father's spartan ways, the younger Lee loves to drive his 911 Porsche race car at 200 mph, watches hours of movies, and keeps hundreds of dogs on a farm near Seoul.

BOILING POINT. Once at the helm, Lee gradually began exhorting senior management to delegate more authority and take more active roles themselves. In effect, the younger Lee decided to apply the best of what he learned at Japanese elite Waseda University and American George Washington University. Then he adds his own twist: To force managers to make their own decisions, he often works from his guest house in central Seoul, refusing to take their calls or accept their visits.

His campaign to launch a management

volution didn't take off until 1993. After years of quietly nudging his managers, Lee took the entire top management to Los Angeles and showed them how U.S. buyers and sellers were largely ignoring Samsung products. He thought the on-site inspection would create a sense of urgency. "They didn't listen," he says.

His frustrations culminated in June. On his route to Frankfurt that month, Lee opened his briefcase and found disturbingly strong support from a trusted Japanese adviser. The Samsung Design Center, said the consultant, was poorly run. What's more, the adviser commented, no one at the center listened to his advice. The chairman was shocked. "He counts a senior aide. "He asked why Samsung people weren't listening. It made me very upset."

Lee also learned that a key piece of testing equipment at Samsung Electronics' research and development center had gone unused for several days because of a broken electrical outlet. So while still aloft, he ordered his staff to use their time in the air to analyze this seeming nonchalance. "We concluded that it came down to education and human nature," says the chairman. "He wasn't very satisfied with our answer."

Upon reaching Frankfurt, Lee "exploded," says Hwang Kyung-Key, a group executive director who was there. He called Seoul and yelled for about an hour. [And] he declared that his yelling be recorded and that the tapes be sent to Korea for distribution within the group." Then, Lee issued his so-called Frankfurt Declaration: "Quality first, no matter what."

While still in Frankfurt, he summoned hundreds of Samsung executives in batches of 20 to 40 for intensive, often mid-the-clock meetings. In the course of the next two months, he convened groups of all 850 of his senior executives to brutal sessions in cities where he had appointments—from London to Osaka. The foreign settings allowed him to show his top managers how poorly Samsung products were positioned. But most of the time was spent in intensive

discussions about competitiveness, quality, marketing, and training. "Between June and August, I don't think Chairman Lee slept more than two or three hours a day," says Hwang.

Lee's message is that without understanding things considered "alien" to Korean culture, Samsung can never compete. "Knowing yourself and your enemies is the first prerequisite to becoming a warrior," says Lee, paraphrasing the classical Chinese military

abroad: They must move around by car, bus, or train to better experience the country they're visiting. One senior managing director, Kim Hun, 51, has spent the past two months criss-crossing the U.S., studying the American revolution and early U.S. history for clues on leadership. Other Samsung executives have spent weeks trekking through Malaysian rain forests and backpacking in Egypt, Syria, and Jordan.

UNLIKELY AXMAN. What's more, each year Samsung hands 400 men with at least three years' tenure a fistful of money and sends them abroad for 12 months to do whatever they want, no questions asked. Lee expects them to return with intimate knowledge of their host country's language and culture.

After a few years back in Korea, they return to their country of specialization to push Samsung products. At the end of this five-year program, Samsung will have spent \$100 million training 2,000 young managers.

The most attention-grabbing of Lee's mandates has been his "7 to 4" program. Since July, the chairman has required employees at virtually every Samsung operation to show up at 7 a.m. and leave at 4 p.m. This is jarring in a country where the typical white-collar workday is 9 a.m. to 8 p.m. followed by late-night drinking bouts. But Lee did it to dramatize the changes he's demanding, to bolster productivity, and allow time for self-improvement courses. During the first few months of the new regime, he made random phone calls to various business units. Anyone answering after 4 p.m. received severe scoldings.

For many of Samsung's top executives, though, Lee's revolution is the beginning of the end. "About 5% of them can't change at all, so I'll fire them," he says with brutal candor. "Another 25% to 30% may find change difficult, so we'll give them less responsibility." That means demotion. He reckons only 5% to 10% of his top managers will gain responsibility as part of his wrenching overhaul.

Lee himself is hardly the picture of a corporate axman. Meek and deferential with visitors, he speaks quietly and de-



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MACHINERY/ENGINEERING	5.0	7.0
SAMSUNG HEAVY INDUSTRIES SAMSUNG CONSTRUCTION	SAMSUNG ENGINEERING SAMSUNG AEROSPACE	
CHEMICALS	2.5	3.3
SAMSUNG GENERAL CHEMICALS	SAMSUNG PETROCHEMICAL	
TRADE/FINANCIAL SERVICES	29.0	30.0
SAMSUNG SAMSUNG LIFE SAMSUNG SECURITIES	SAMSUNG CREDIT CARD SAMSUNG FIRE & MARINE INSURANCE	
OTHERS	2.5	2.7

DATA: SAMSUNG, BUSINESS WEEK
FIGURES INCLUDE SALES AMONG SAMSUNG UNITS

► **SHIPBUILDING: WILL DECENTRALIZATION MAKE SAMSUNG MORE CREATIVE?**

theorist, Sun Tzu. "My first step is getting our people to this point."

Thus, training has become the watchword at Samsung. Take the CEO School. Launched last September, it aims to put all 850 top group executives through six months of reeducation—three months in Korea and three overseas. Lee forbids CEO School students to travel by plane while



The Corporation

liberately. "It's my nature to detest revolution," he says. Although perhaps the richest man in Korea, with his family still owning about 5% of Samsung shares, he is a loner at heart and has few Korean friends. Having graduated from Waseda, as did his father, he spends more time with Japanese acquaintances than with Koreans.

An admitted video freak, Lee claims to have watched 10,000 movies on his VCR. He also loves dogs. His kennels house as many as 300 canines, and favorites wander into the guest-house parlor during meetings. "They can't talk, so you have to watch them carefully to determine what they want," he says. "That helps with my observation of people."

DIVIDENDS. After videotapes and dogs, Lee's favorite hobby is fast driving. His collection includes models of some of the spiffiest race cars in the world, and he likes to drive them at top speed on Germany's Autobahn or private racetracks. "Driving at 200 mph puts your life at risk," he says. "It makes you fully alert and relieves most of your stress."



KIM HUN IS ONE OF 850 EXECS REQUIRED TO STUDY ABROAD

Is he a crackpot or visionary? Some Korean rivals say his personal style and management techniques are dangerous. "Why is he doing this?" asks Bae Soon-Hoon, president of Daewoo Electronics Co. "It's a big risk. You can't make a good organization innovative in one day." Bae thinks the Lee-induced "instability" at Samsung is foolhardy. But Japanese competitors and allies are taking Lee's revolution seriously because of his success in semiconductors. Says Tsuyoshi

Kawanishi, an executive at Toshiba Corp., which has a strategic alliance in chips: "Particularly in microelectronics respect the speed and foresight of his leadership."

U.S. experts also believe Samsung shakeup ultimately will pay dividends. "With globalization, they're gaining strength, and there is a great sense of esprit because people feel they're part of decision-making," says Phillip D. Grub, professor of international business at George Washington University. He was Lee's professor when he visited Samsung in January.

One result of his student moves, Grub says, is that Samsung is becoming better at targeting niches, such as liquid-crystal display screens, rather than attempting to compete across the board. Samsung is also eyeing digital videocassette recorders, sophisticated chemicals, and highly computerized machinery. If Lee can grasp the 21st century technologies, critics of the revolution will be eating their words.

By Lucio Nakarmi and Robert Nease
Seoul

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WILL TYCO END UP IN A RIVAL'S TOYBOX?

Wretched results have Wall Street talking takeover

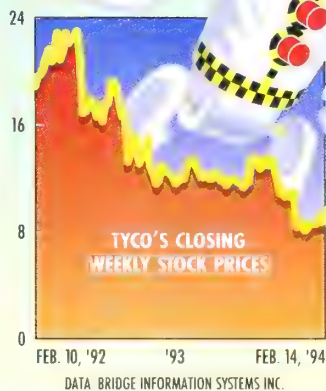
You would think Richard E. Grey has one of the more enjoyable jobs in Corporate America. As chief executive of Tyco Toys Inc., the country's third-largest toymaker, he gets to fuss over radio-controlled trucks that squirt simulated python venom and dolls that wet their diapers. But though his eyes still give off a faint Willy Wonka twinkle, Grey is finding that the toy business is anything but fun and games.

Tyco is being squeezed. It lags far behind bigger and more powerful Hasbro Inc. and Mattel Inc. It's struggling to digest several acquisitions made from 1989 to 1992. And worse, a weak 1993 product line left the Mount Laurel (N.J.) toymaker with no breathing room: Tyco posted an operating loss of \$56.9 mil-

lion last year, compared to a \$44.1 million profit in 1991, as sales slipped 5%, to \$730.2 million.

And though Grey is making a big comeback bid by unveiling a slew of new toys at the American International Toy Fair, which began in New York on Feb. 14, many observers speculate that Tyco may be ripe for acquisition. Now that its stock price has fallen to 9¢ from a high of 23 in June, 1992, Tyco's market capitalization has dropped 58%, to just \$333.7 million, or just above book value. That's just the kind of discount that's bound to attract acquisitive

FASTEN YOUR SEAT BELTS



Hasbro, the likely suitor, say analysts. Hasbro CEO Alan Hassenfeld is coy on the subject: "I can't say the rumors are baseless, yet tomorrow, they might not be baseless."

Much of what a Tyco is self-inflicted. From 1989 to 1992, Grey, 59 and a 19-year Tyco veteran, sought to diversify by snapping Matchbox, View-Master/Ideal, Playtime and the licensee for Sesame Street toys, financing much of the

acquisition spree with long-term bonds. At the same time, Tyco opened six sales and marketing offices in the growing European market.

Grey acknowledges that the fast growth distracted Tyco's management from the critical task of product development. "We just had too much on our plate," he says. That became clear when Tyco's once-hot Little Mermaid dolls a-

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ON THE STREET

redible Crash Dummies fized by early 1993—and Tyco did no new winners to fill the id. The subsequent drop in es has made it harder for co to pay down its \$179.8 lliion in long-term debt.

OR MISS? Now, Grey is hting to regain lost ground. bolster Tyco's balance sheet, s trying to raise \$50 million a private equity offering. He s also sworn off any more quisitions. More important, ey is concentrating on new s for 1994. At the Toy Fair, introduced new products d line extensions that will ount for 75% of Tyco's cataue of more than 1,000 toys s year. He is hoping that h offerings as the Talking gic 8 Ball, a new version of e 40-year-old fortune-telling toy, and e My Pretty TopsyTail hairdressing ll will generate some much-needed zz to help pull the company out of e doldrums.

Analysts don't see an obvious hit in e lineup, though. "Nothing is a drop-ad, \$50 million new category," says alyst John G. Taylor of L.H. Alton Co. Like other analysts, Taylor doesn't



GREY: AFTER SOME NEGLECT, A SLEW OF NEW PRODUCTS

have a firm 1994 forecast for Tyco, though he expects the company to climb out of the red. The lackluster reviews have only fueled talk that all or part of Tyco will be bought in the coming year. That's where Hasbro comes in. Some analysts believe Hasbro would love to add Tyco's radio-controlled cars and electric racing sets to its mix.

Not surprisingly, acquisition talk is a

sore spot with Grey. "We believe that shareholders are better served by Tyco [remaining] an independent toy company," he says. At least a few shareholders may not agree. Two separate shareholder class actions, filed in December and January, allege that Grey took too long to tell them that 1993 would not be the record year he had forecast as recently as April. But several analysts and institutional shareholders who were not parties to the suits say Grey was forthright about Tyco's declining fortunes.

A takeover is far from certain, of course. In the fickle toy business, the biggest hits usually take everyone older than nine by surprise. Just ask Tyco's Magic 8 Ball, which still sells almost a million units a year, whether there are any company-saving hits in Tyco's toy chest: "Cannot predict now," it divulges solemnly, followed by: "Signs point to yes." Forgive the toy's corporate boosterism. Maybe Magic 8 Ball doesn't want to be acquired, either.

By Elizabeth Lesly in Mount Laurel, N.J.

JOHN S. ABBOTT



WHERE YOU LIVE

THE LEARNING REVOLUTION

TECHNOLOGY IS RESHAPING EDUCATION—AT HOME AND AT SCHOOL

Erin and Jessica Ferguson, 4-year-old twins, crowd into a chair in front of the computer their parents bought last month. Erin is at the keyboard, and the game is Mickey's ABCs. On the screen, Mickey Mouse is sleeping. Erin presses V. "V is for violin," says the computer, and Mickey gets up and plays the violin. She presses O, and he slides down a pole to the kitchen and opens the oven. A blast of hot air from the flames inside send his ears back. "Too hot! He'd probably burn his food if he put it in," says Jessica. Later, Mickey sees a pig. To find out what the pig will do, Erin finds the letter P and presses it. The pig grunts and rolls in a mud puddle. The girls giggle. "This is as much fun as Barbies," says Erin.

Benjamin Newman, a freshman at San Francisco's Lowell High School, steals into his parents' tiny study off the garden to use their personal computer for one of his favorite games, SimCity. After loading the program, he scans the map of the town he has been creating and begins to lay out residential areas, fire stations, airports, and parks. He carefully weighs the health costs of pollution against the expense of nuclear power and railways.

Ben City comes to life, and its 15-year-old creator is pleased: All is going well. Through trial and error, he has learned to weigh the social, economic, and political issues in his metropolis. He has a balanced budget and a firm hold on his electorate. But then, disaster strikes. The program has unleashed one of its half-dozen random events—from an earthquake to a rampage by Godzilla. Mayor Ben is unfazed. With the flick of

a button, he deactivates the "acts of nature" module. "I was tired of dealing with tornadoes running rampant through my city and destroying things that were expensive," Benjamin explains with a shrug.

WESTWARD HO. More fun than Mortal Kombat? Not really. Most kids, especially boys, will tell you that it's a lot cooler to play action-packed video games. But more and more kids are getting

dose of reading, writing, arithmetic, and reasoning along with their electronic fun. Grade-schoolers are spending hours with programs such as Broderbund Software Inc.'s Carmen Sandiego series, in which players must look up answers to geography questions, catch up with a gleefully trotting thief. Or Davidson & Associates Inc.'s Math Blaster, in which shooting at space creatures is coupled with solving a series of arithmetic problems. Or Oregon Trail, from Minnesota Educational Computing Corp., in which players have to decide whether to dare to ford a river on their historically accurate trek or pay for a ferry upstream. Home schoolers are getting technology lessons from Smithsonian's Body Illustrated and searching their papers on Compton's Interactive Encyclopedia.

These "edutainment



Getting a jump on reading

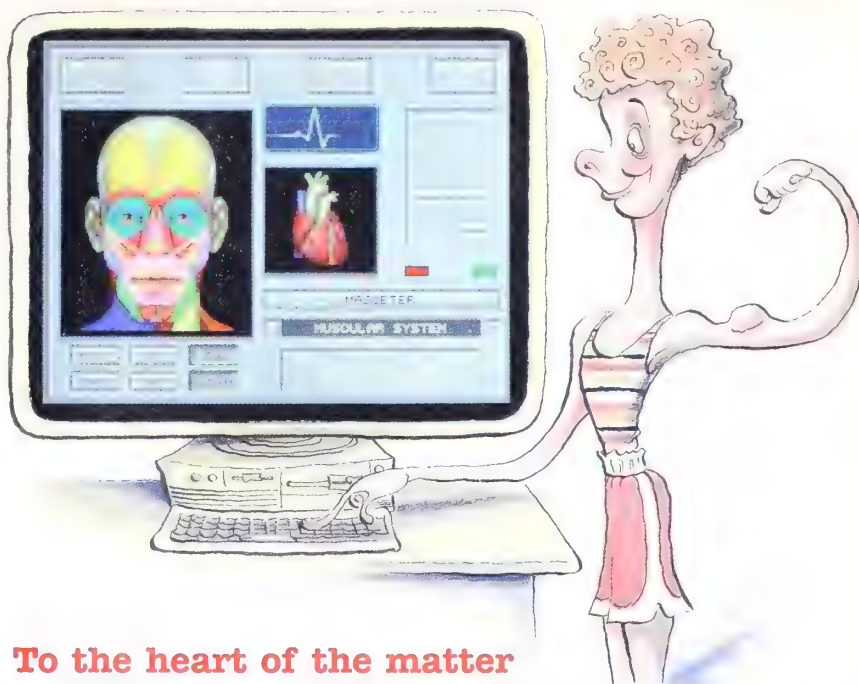
Reader Rabbit teaches preschoolers their letters and helps them identify words with pictures

programs are a driving force behind a new burst of home-computer buying. There parents of baby boomers paid 1,000 in 36 easy installments for a rather-bound edition of the *Encyclopaedia Britannica*, boomers are spending 1,500 to \$2,500 for a CD-ROM-equipped multimedia personal computer capable of playing richly interactive programs with all of CD-quality sound, TV-like animation, and even snippets of movies. Usually, the PC maker throws in an electronic encyclopedia—recorded on a shiny compact disk. That's not all: In addition to an encyclopedia, Packard Bell Electronics Inc. ships a world atlas, San Diego Zoo Presents: The Animals, Mavis Beacon Teaches Typing, and other kiddie titles with its multimedia PCs. Already, some 5 million multimedia PCs are in use in the U.S., according to the newsletter *Multimedia Business Report*, which predicts an additional 4.5 million such machines will be bought in 1994.

That's creating a boon for the upstart software makers that have been pioneering edutainment. In 1992, retail sales of home learning programs spurted 47%, to \$147 million, according to the Software Publishers Assn. (SPA). Sales in 1994 will approach \$250 million, estimates San Francisco brokerage Volpe, Kelly & Co., which forecasts that by the end of the decade, parents will be spending \$1 billion a year on software for at-home learning.

DRILL AND KILL. But more important, the tantalizing mix of fun and learning has caught the attention of parents, teachers, and education experts. Maybe, just maybe, this new form of lively, interactive software is what could finally turn the computer into the high-tech learning tool it was always expected to be. The key is the interactivity of the new programs. Until now, most educational programs have been of the drill-and-practice variety—about as much fun as flash cards and known as “drill and kill” among educators. “We’ve seen tremendous leap not only in the amount of software but in the kind of software and what it can do,” says Terry Brien, who teaches fourth and fifth grade at St. George Elementary School in Bellevue, Wash. “Before, it was only point-and-click, pretty simplistic.”

Interactive edutainment programs, on the other hand, can captivate. As in video games,



To the heart of the matter

Teenagers can get the inside story on human anatomy—and can even watch a virtual heartbeat—with *The Body Illustrated*

there are levels to conquer, treasures to find, and villains to pursue. But the fun—shooting at a space ship, say—usually comes as a reward for serious work: successfully solving a string of equations or correctly spelling a list of words. “They get so worked up, they can hardly stand it,” says Veda Moretti, whose 4-year-old son, Daniel, makes a beeline for the basement after preschool in Bellevue, Wash., to play Millie’s Math House by Edmark Corp. “Don’t you wish you had had something like that to learn on? It’s just criminal they don’t have it in his classroom.”

Many education experts agree. Start-

ing with preschool programs that make mastering the basics fun, and continuing up through high school and even college, they see interactive multimedia software as a key technology to revamp American education. Programs such as SimCity, which is being used in university urban planning and transportation courses, “are very, very powerful tools for learning,” says Margaret Honey, associate director for the Center for Children & Technology, a New York think tank. “They’re compelling enough to hold kids’ interest, but rich and complex enough to support sustained learning over time in the classroom.” Adds Dona-



Facts at your fingertips

Too late to go to the library? Fire up the computer, and call up Compton’s Interactive Encyclopedia

Where the heck is she?

Carmen Sandiego could be anywhere. Answer the geography questions and solve the mystery



van A. Merck, manager of the education-technology office for the California Education Dept.: "We want curriculum reform, and we see no other way to do it than multimedia."

At this point, there's little reliable data to prove that the new educational software can make a quantitative difference. One study, commissioned by the SPA and conducted by Interactive Educational Systems Design, a New York consulting firm, found that interactive software could speed learning by 30% to 50% over conventional methods. But even without hard data, the advantages are clear. "Beyond a shadow of a doubt, it's a more effective way to learn," says Warren Buckleitner, a former elementary-school teacher and now a doctoral candidate in educational psychology and editor of the newsletter *Children's Software Review*. "It's why kids are drawn to video games and hate math and reading. The computer gives control back to the kids."

Even the experts who criticize the tilt toward "tainment" in many of today's education titles agree that the interactivity,

graphics, sound, and video of multimedia will play an important role in the classroom. Roger C. Schank, director of the Institute for the Learning Sciences at Northwestern University, figures that classroom versions of the interactive training systems he is designing for industry could be a big factor in fixing America's schools. How so? "We need a way to economically provide individualized instruction," says Schank. "Computers provide that economy."

If, that is, they can be successfully introduced into everyday schoolwork. And that's a formidable "if," because it



Time travel

What was it like to cross the prairie in the 1840s? Take a trip on the Oregon Trail and find out

implies a major overhaul of curriculum and teaching methods. "You have to marry the new technology with new ways of teaching," says Thomas L. Friedman, chairman of the Technology & Society Dept. at the State University of New York at Stony Brook. "You have to say, 'Let's redesign the whole enterprise.' Without that, computers will continue to be 'extras' that sit in the back of the classroom for drill or independent study—or, worse, down the hall in the computer lab. Even now, companies such as Jostens Learning Corp. and Computer Curriculum Corp. are finding that the readiest market for their interactive learning systems, which cost as much as \$100,000 per classroom, is in remedial education—where the federal government picks up the tab (page 86)."

CURRICULUM COPS. Weaving computers based learning into the regular curriculum could take years. First, there's the cost of equipment. Then there's resistance from the education establishment. Teachers are understandably leery of the promise of a sudden technology miracle after 15 years of frustration with PCs in the classroom. Then there's the question of tearing apart and rebuilding the basic educational process at a time when the nation's public school systems are beset by enormous problems. "It's easier to get a metal detector approved by the school board than something that changes instruction," says Proctor H. Houder, executive vice-president of Jostens Learning, the leading supplier of software to schools. "Society is asking extraordinary things of teachers today—to take care of kids from dysfunctional homes, to take care of kids with alcohol

and drug problems."

Another obstacle is getting book publishers to create a full range of electronic texts and course materials. "Our basic premise is that the computer tool has not yet found the central role in instruction that is used mostly for remediation and enrichment," says Joseph L. Dionne, chairman of McGraw-Hill Inc., which publishes BUSINESS WEEK and is the leading textbook publisher in the U.S. While McGraw-Hill and other textbook publishers are experimenting with electronic products, Dionne says they won't invest heavily until it's clear these offerings are not simply ancillary products. "Until there is a central role for the computer

the instructional process, it's never going to take off," he says. Still, he's optimistic. By 1997, he figures, states will begin large-scale adoptions of multimedia texts.

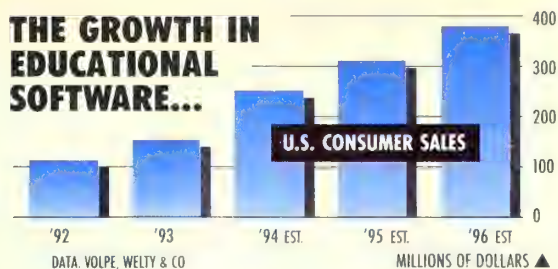
The big push is likely to come from parents who have seen edutainment programs excite their kids at home and from a younger generation of teachers brought up with computers. One reason for the success of the Carmen Sandiego series, in fact, has been teachers sneaking the programs into their classes—often past the curriculum cops. "Educators look favorably both on the skills kids acquire and the discrete factual information kids have to unearth to use the program," says Margat Honey. "It makes use of good inquiry and problem-solving strategies."

Now, teachers' lounges and parent-Teachers Assn. meetings are abuzz with talk of "learning modalities"—the different ways different people learn. If a child learns verbally, he'll respond well to traditional teaching, with its lectures and texts. But studies show that many children absorb more when information is visual or auditory—or, as with multimedia.

The job of providing interactive instructional programming could become a lot easier with the advent of the Information Superhighway. One possible outcome of the new telecommunications regulation under consideration in Washington would be to require cable-TV and local phone companies to wire schools with high-speed communications lines that provide universal interactive TV service to families that can't afford a hook-up. That would put interactive education and edutainment programs into homes that could provide a vital link between classrooms and living rooms.

USING AROUND. For now, edutainment will remain largely the domain of middle and upper classes—families that enthusiastically pay for a personal computer and a collection of edutainment programs costing \$30 to \$50 each—which they hope will give their kids an edge. "We can make a difference in education, even if we aren't in the classroom," says Bill Gross, chairman and founder of Knowledge Adventure Inc. in La Crescenta, Calif. His company's products let children, using a computer mouse, wander through a virtual-reality-like environment—an undersea world or the human body—going wherever they please and looking at objects from whatever angle they want. "What we're trying to do is to get kids excited about

THE GROWTH IN EDUCATIONAL SOFTWARE...



...AND THE COMPANIES CASHING IN

1993 REVENUES (MILLIONS)		HIT TITLES
BRODERBUND SOFTWARE	\$95.6*	Where in the World is Carmen Sandiego?
DAVIDSON & ASSOCIATES	\$59.7 (EST.)	Math Blaster
COMPTON'S NEWMEDIA	\$41.0 (EST.)	Compton's Interactive Encyclopedia
LEARNING CO.	\$27.5**	Reader Rabbit, Treasure Mountain
MAXIS	\$20.0 (EST.)	SimCity, SimAnt
KNOWLEDGE ADVENTURE	\$18.5	Dinosaur Adventure, Undersea Adventure

*FOR FISCAL YEAR ENDED AUG. 31, 1993

**FOR FISCAL YEAR ENDED JUNE 30, 1993

DATA: BUSINESS WEEK, VOLPE, WELTY & CO. ESTIMATES

making a discovery. Once they feel that thrill, they'll search for it elsewhere—the park, the museum, the classroom."

Parents are delighted with the results. "Some of the games are very impressive," says Benjamin's father, David Newman, a Federal Trade Commission attorney. Young Benjamin has learned that if you raise taxes too high, the populace votes you out. Lower taxes, and you won't have enough mon-

ey to pay the police. "The State of California never has figured that out," Newman says. "But kids can be playing SimCity." SimCity is one of a handful of edutainment products that were first aimed at adults, then crossed over to the kid market. A new product for grownups, SimHealth, lets you figure out what the consequences are for various health-care reform scenarios now being debated.

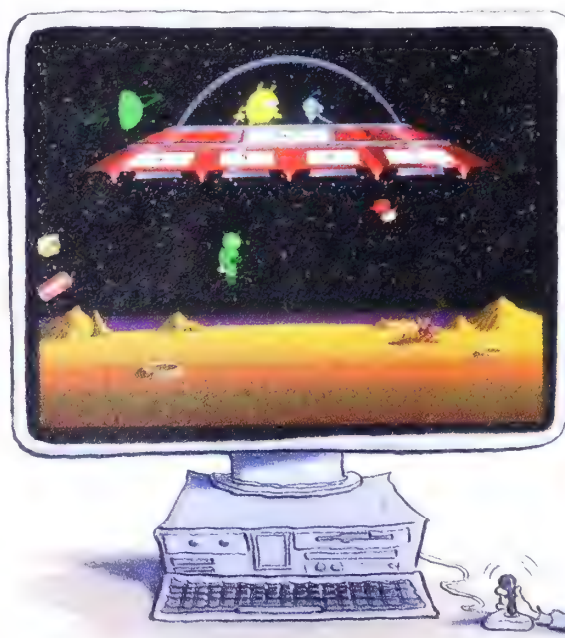
"HEALTHY ALTERNATIVE." As the number of edutainment titles explodes—there are 700 on the market now and an additional 250 coming annually—there will be a program for every age, every skill. Some are creativity tools, such as Broderbund's Kid Pix, a painting program that helps young children draw pictures that they can tell stories around. For older students, there are scaled-down, jazzed-up spreadsheets and word processors, such as Cruncher from Davidson & Associates and Learning Co.'s Children's Writing & Publishing Center. "Research

has shown that kids take great pride in work that they can print out that looks professional," says Rosemarie Shannon, producer of the "I-learn" series from Sanctuary Woods Multimedia Corp. "It really motivates them to write."

Kids of all ages are taking to exploratory games that are open-ended—designed for browsing rather than teaching a lesson or completing a quest. They

Numbers racket

Arithmetic can be fun—when you mix it with a video game. In Math Blaster, kids have to learn fractions before they can attack enemy craft

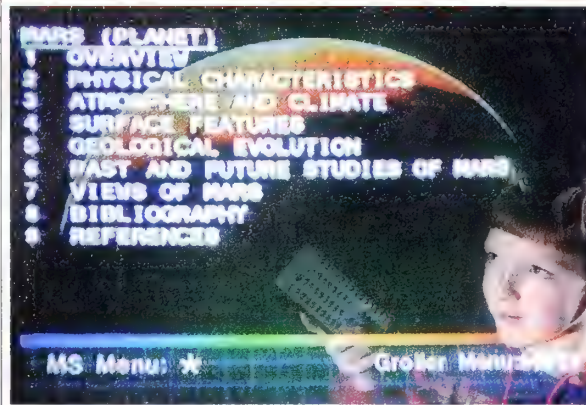


Special Report

range from simple children's storybooks such as Broderbund's *Just Grandma & Me* to sumptuously detailed, highly interactive adventures and simulations such as *SimCity* or *Knowledge Adventure's Underseas Adventure*.

Admittedly, some titles have scant educational content. Take *Putt-Putt Goes to the Moon* from Humongous Entertainment in Woodinville, Wash. Ostensibly, it teaches 3- to 8-year-olds problem-solving and critical thinking. But it's mainly for fun, says Ron Gilbert, who along with Shelley Day left LucasArts Entertainment to start Humongous two years ago. "I would rather the computer be viewed as a healthy alternative to TV," says Gilbert. "Our goal is to produce really good, healthy, nonviolent entertainment."

LITTLE DARLINGS. Whatever the educational value, edutainment spells money. And mainstream software makers have taken note. "Two years ago, [edutainment] companies were almost considered a joke—little software companies that everyone regarded as toymakers," says Leigh Marriner, a San Rafael (Calif.) marketing consultant and former



Broderbund vice-president. "Now, they're the darlings of the industry." Indeed, on Feb. 9, video-game giant Electronic Arts Inc., after two years of trying to launch a successful education division on its own, announced plans to acquire Broderbund in a deal valued at more than \$400 million.

Broderbund, with \$95.6 million in annual revenues, is the giant among the edutainment startups. But there are dozens of smaller success stories. Take Bill Gross's *Knowledge Adventure*. Gross, author of *Lotus Development Corp.'s* *Magellan* program, quit three years ago

IT'S NOT TV, IT'S HOMEWORK:
STUDYING WITH GTE'S INTERACTIVE
CABLE CHANNEL, MAIN STREET

and went to work designing a multimedia learning program for his son David, then in kindergarten. Two and a half years later, the company has 9 similar titles, 100 employees, and revenues in the \$20 million range. Investors include Mohr Davidow Ventures, American Telephone & Telegraph, and Paramount Communications.

Similarly, George D. Gray left Micrografx Inc., a maker of business graphics software that he founded with his brother, Paul, to launch 7th Level Inc. His partner in the Los Angeles company is Scott Page, a former saxophonist with the rock group Pink Floyd. Their first product, shipped last month, is *Howie Mandel's TuneK*, an interactive, animated storybook with 42 sing-along public-domain songs, such as *Old MacDonald Had a Farm* and *Itsy-Bitsy Spider*. Backers include Michael R. Milken, the infamous junk-bond king. Milken, now a private investor, wants to tap 7th Level to create programming for his Educational Enter-

RIDING THE EDUCATIONAL-SOFTWARE WAVE

Ask Jan Davidson whether technology for kids makes a difference, and you soon will become a believer. "Success is a great motivator," she says. "If one of these programs makes kids more confident in their ability to learn, that will help them do well in school. The result is that they'll learn learning, they'll learn the rest of their lives, and they'll take responsibility for their own learning."

Davidson is the preeminent pioneer of the education-software business and of what's now called edutainment. For the record, she hates the word: "I hope our software does not bastardize education, which is what the word suggests." But she doesn't fight it: It's making a difference to kids—and more profoundly, it's finally having an impact in schools.

And it has made Davidson a successful entrepreneur. In the late 1970s, after a dozen years of teaching, Davidson founded a nonprofit tutoring center in Rancho Palos Verdes, Calif., and quickly discovered computers. For \$3,000, she bought a

JAN AND BOB DAVIDSON: THEIR \$60 MILLION COMPANY IS NOW SECOND ONLY TO BRODERBUND



ent Network, a planned interactive cable channel.

Now the big names in software are ready to jump in. Microsoft Corp. has set up divisions to develop and sell children's software. Nintendo Co. launched Mario Paint, a TV drawing-and-animation kit whose mouse plugs into its entertainment system. This month, Microafx forged a deal with Hallmark Cards' Binney & Smith subsidiary to develop Crayola-brand drawing programs, and Sega Enterprises showed up at the annual Toy Fair in New York in February with Pico, a \$160 home computer that hooks up to the television to deliver early learning exercises to youngsters.

GOING ON-LINE. In addition to providing fresh growth, edutainment could be more profitable than other software markets. Unlike business software, it hasn't been racked by price wars. Also, customers buy multiple products, not just a spreadsheet and word processor. And like the games business, it isn't driven by hits that have a shelf life of less than months. Another lure: Edutainment provides software makers with a potential on-ramp to the interactive Information Highway. "You might say we're all getting cable-ready," says Norman J. Stein, executive vice-president of Comp-

and-white Apple II and with a wrote programs to drill students in elementary and math while she tutored them. "It could only handle capital," she recalls.

Now, Davidson began selling her software through an Apple Computer Inc. But the computer maker quit the software business. After searching for a software publisher, Davidson went it alone. Her company prospered until 1991, when edutainment went into overdrive.

Now, Davidson & Associates, which she runs with her husband, Bob, has sales of \$60 million and is No. 2 in the market after Broderbund Software, which just agreed to a \$400 million buyout from Electronic Arts. The company's stock went public in April and now trades at 22%, with a stake worth \$290 million.

'TEACHER.' Davidson, now 50, seems the tycoon. "She comes off as an incredibly sweet teacher—disarming, genuine and warm," says Ken Davidson, executive director of the Software Publishers Assn. "But she has a sophisticated business instinct." Five years ago, she was smart enough to realize she needed management help. "I was in over my head," says she and Bob interviewed candidate

Not just for the kids
Will Hillary-care work? How about the Canadian plan? SimHealth makes you an armchair policy wonk



ton's NewMedia Inc. in Carlsbad, Calif.

Indeed, the Info Highway could spur huge demand for interactive education software. On-line computer services such as America Online Inc. and Prodigy Services Co. offer on-line encyclopedias and other learning programs. Gamemaker Sierra Online Inc. has a joint venture with AT&T called the Imagination Network that's aimed at kids. And GTE Corp.'s Main Street interactive cable

channel, now operating commercially in suburbs of Boston, Los Angeles, and San Diego, gives TV viewers interactive links to an encyclopedia and the local library's card catalog. From there, it's a small step to the classroom. IT Network in Dallas has tested an interactive setup called Teachers' Assistance Program in Birmingham, Ala. Parents from 40 homes tuned in to see teachers' lesson plans, their children's homework assign-

ment after candidate, but she wasn't comfortable turning her baby over to any of them. So, she offered her husband the post. Bob quit his job at Parsons Corp., an engineering and construction company, to become chairman and chief executive.

These days, Jan focuses on creating the company's titles—and working tirelessly as an education activist. She coaxes businesses to give more to education, goads competitors to build more educational value into their products, and prods teachers to push for change. Thanks to the popularity of edutainment titles, it's easier to get her message across. "I no longer spend time answering questions like 'Why would I need a computer in the classroom?'" she says. "Now, it's 'What's the best way to implement a computer in the classroom?'"

Davidson doesn't claim to have all the answers. Competitors who are further along in creating interactive multimedia products say Davidson's big hit, Math Blaster, is hardly cutting-edge—a drill-and-practice program in video-game drag. But you will get no apologies from Davidson. "It's not what I want to be remembered for, but I'm not ashamed of

it," she says. What counts is her unhidden educational agenda: Before grade-schoolers can shoot space trash, they must complete a drill-and-practice section on fractions. Even in the 21st century, says Davidson, there won't be a shortcut to memorizing those basics.

HOLISM. In the future, she predicts, software will not be so narrow: "We're learning that we don't learn in subject areas; we learn more holistically." One step in that direction is Davidson's Cruncher program. The spreadsheet for fifth-graders and up includes a word-processing program so kids can write a description of how they tackled a problem—in social studies or science or health.

Next on Davidson's plate: electronic textbooks. The company has deals with several publishers. Along with Addison-Wesley Publishing Co., it has a \$1.2 million contract from the giants of textbook buying—California, Texas, and Florida—to write a multimedia history and social-science curriculum for junior high schools. If it catches on, Davidson will once more be making a difference in the classroom—15 years after she left.

By Larry Armstrong in Torrance, Calif.

Davidson now has several deals to produce multimedia textbooks

ments, and even their own kids' work.

"The ability to have a direct home-school connection, with interactive programming that's as attractive as MTV, will make a profound difference in American education," predicts John Kernan, chairman of a tiny Carlsbad (Calif.) startup, Curriculum TV Corp. Kernan, formerly chairman of Jostens Learning, is counting on government-mandated

universal access to cable TV for education. His idea? "The teacher presents a lesson in class and says that the homework for that lesson is on channel 163."

Still, the technology is only part of the equation. American schools are already loaded with computers—albeit old ones. Compared with other industrialized nations, U.S. schools have far more computers per pupil, according to a

study published by the University of Minnesota in December. But the study also found that there was no widespread use of computers in classroom teaching.

"The history of technology in education is that schools have been relatively impervious to the invasion of technology into the routines of teaching," says Michael W. Kirst, a former president of the California Education Board and

HIGH-TECH TEACHING, HIGHER TEST SCORES

It's a Tuesday morning, and most of the kids at the Ronald McNair School in southeastern Queens, N.Y., are excited. The forecast is for up to eight inches of snow, which could mean an early end to the school day. In one corridor, 30 students are abuzz—but not so much about when they can leave as when they can get into a particular classroom.

The group is Sylvia Leslie's fourth-grade class, one of four remedial groups scheduled to use McNair's multimedia personal-computer network. The snow is coming down in thick flakes, but the kids hardly notice as they put on headphones and become absorbed in the computer-generated lessons that will teach them how to count money and differentiate between "it's" and "its." The room's silence is broken only by occasional hushed cries of "yes" and "all right," signaling that a student has successfully completed a hard task or quiz.

Replacing textbooks and "drill and practice" workbooks is a network of 30 PCs running software designed by Jostens Learning Corp. Music, narration, and graphics make lessons "come alive." In one case, kids learn about acute and obtuse angles from a fisherman—who, the computer notes, is traditionally called an "angler."

TIMELY LESSON. "I love it when I get math," says 9-year-old Kevin Mullings. The fourth-grader is learning about time by watching an animated clock move its hands. "I love the art," he says as the computer shows him why "3:15" is also known as "a quarter-past

three" since the minute hand is at "3" and marks off one-quarter of the clock's circle. When the PC shows Kevin the next clock face and asks him to enter the time, he knows it's "1:30." When it comes to tests, "I never get under 90," says Kevin, who loves math so much that he hopes one day to be a scientist because "they use math a lot."

This aspiring scientist is just one

leagues appreciate the high-tech help the system offers, such as compiling detailed reports for each student. In scanning the readouts, a teacher can see where extra attention is needed. Stephen didn't do well in fractions, shows up in how long it took him to complete that lesson. Once a pattern is established, the teacher can order supplemental lessons that the file-server

computer will assign to Stephen for the next session.

MOVING UP. And Leslie says time spent in front of the PC reinforces what children are learning in the nondigital classroom. "When they take tests," she says, "they say, 'Oh yeah, I remember that from the computer.'" Leslie says she has seen some kids' test scores jump from the 70s to the high 90s.

What's more, the kids in the lab are



QUIET CONCENTRATION: STUDENTS USING MULTIMEDIA COMPUTERS AT McNAIR SCHOOL IN QUEENS, N.Y.

example of the transformation that is occurring among the 180 students using McNair's multimedia technology.

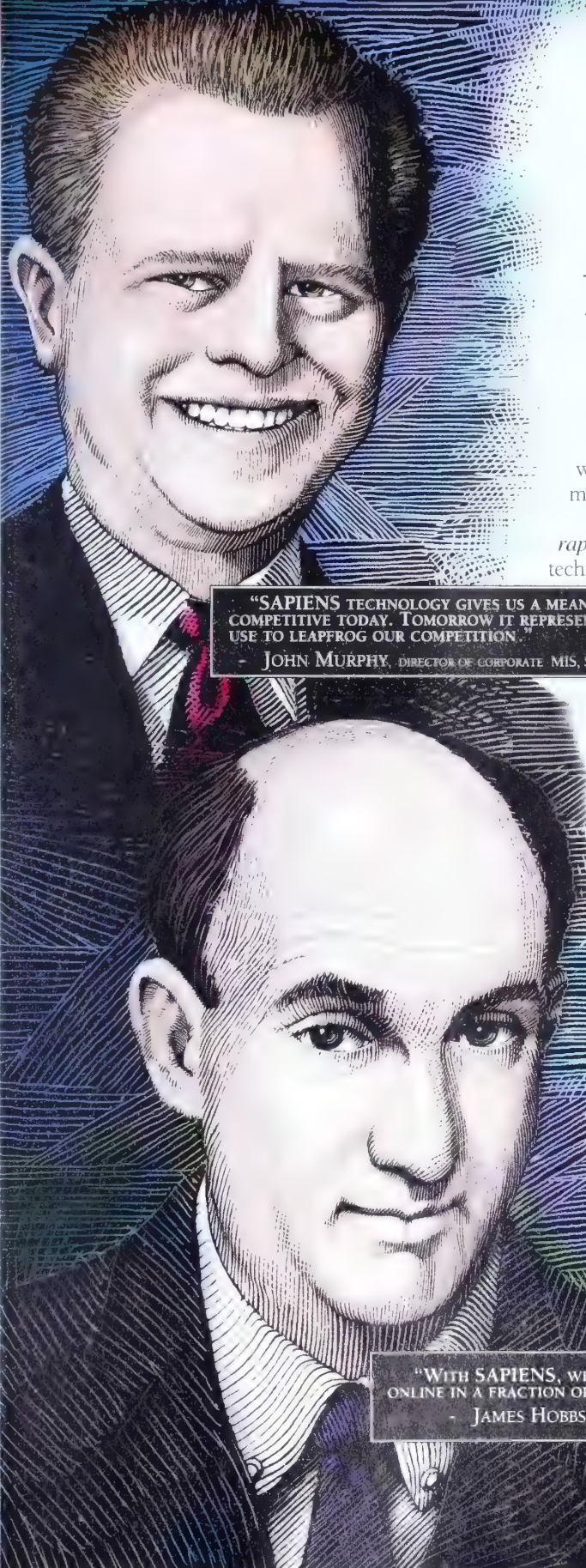
"They're more focused in here," says Leslie, who has been using the Jostens setup since it was installed three years ago. In fact, the students become so focused on the terminals in front of them that there's a special arrangement the children use to get a teacher's attention while in the lab. If students have questions, instead of raising their hands and stopping what they're doing, they place a red cup atop the computer monitor. A green cup alerts the teacher that the PC is administering a "unit test" to the student.

Teachers also get a lot out of the network. Leslie and her McNair col-

leagues are moving up on national achievement scales. The U.S. government minimum is for every student to show "0 NCE" (National Curve Equivalency), which means that in one school year, a child has done the work required. In New York, the requirement is 1 NCE, twice the federal minimum. According to the New York City Board of Education, the 144 kids in McNair who logged more than 20 hours in front of a computer last year showed an impressive 8 NCE in math. Reading scores were up just 1 NCE, but McNair's community school district is working to improve on that this year.

Impressive? Sure. Anything that gets a child's mind off playing in the snow qualifies as a miracle machine.

By Paul M. Eng in Cambria Heights, N.Y.



How Siemens And ARKLA Used Front-Line Technology For Bottom-Line Results

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— JOHN MURPHY, DIRECTOR OF CORPORATE MIS, SIEMENS ENERGY & AUTOMATION

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— JAMES HOBBS, DIRECTOR OF MIS, ARKANSAS LOUISIANA GAS COMPANY

a Stanford University professor. "The software keeps getting better and better, and a little more seeps in every year, but we're not going to see computers teaching kids until we restructure and reengineer the institution."

Slowly, that may be beginning. Some states have started commissioning their own multimedia computer programs. In 1990, the Texas Education Commissioner waived a requirement that multimedia programs could cost no more than the texts they replace, clearing the way for schools to use textbook funds to purchase Windows on Science, a supplemental video-disk-based teaching program from Optical Data Corp. California has since ordered and paid for Science 2000, a seventh-grade science curriculum developed by software maker Decision Development Corp.

SEA CHANGE. That's the most encouraging sign yet, says Jan Davidson, founder and chairman of software maker Davidson & Associates. "Why are school districts and states so anxious for multimedia core curricula that they're going out and funding it?" she asks. "When else in history have states ever funded the development of any educational materials? I just sense a sea change coming on." To capitalize on it, Davidson is now forming alliances with publishers such as McGraw-Hill to add technology to their textbook products.

And the sea change is not just happening in the big states with huge education budgets. West Virginia Governor Gaston Caperton pushed through a \$200 million, 10-year education-reform package—paid for partly with new taxes—to put computers in every elementary-school classroom by 2000. Caperton, who is dyslexic and couldn't read until the fourth grade, immediately grasped the power of computer learning while observing kids with learning disabilities at work on PCs. "They never fail," beams the boyish 53-year-old. "They can spell 'cat' wrong five times, and the computer never calls them stupid."

If computers can do that for children with problems, imagine their potential for ordinary kids. "Computers can make kids active rather than passive learners," Caperton says. And with kids at the controls, can a learning revolution be far behind?

By Larry Armstrong in Los Angeles with Dori Jones Yang in Bellevue, Wash., Alice Cuneo in San Francisco, and bureau reports

Commentary/by John W. Verity

THE NEXT STEP: REENGINEER THE CLASSROOM

The current boom in computer-based teaching products fuels hope that technology has finally reached a point where it can make a difference to education. Cheap, high-powered computers, sharp monitors, stereo sound, and data-packed CD-ROM disks seem to be just the right ingredients for grabbing the TV-shaped minds of today's youngsters. And as digital electronics deliver more bang for the buck—and as schools gain high-speed links to vast libraries of electronic information—the computer's attractiveness as a teaching aid is bound to grow even stronger.

There's a real danger, though, that today's multimedia marvels won't deliver on their promises—any more than computers in the classroom have be-

from their huge investments in computers. For 25 years, it didn't seem to matter that computers could type out memos or financial analyses faster than by hand or that they were doubling in capacity every two years, so: The growth in productivity of workers surrounded by computers was dismal. The reason? Companies were trying to automate the same old paper processes. Only in the past few years when businesses began "reengineering" fundamental activities—opening wide swaths of their business to new approaches and reorganization—has technology begun to pay off.

EMPOWERMENT. Not that education ought to be reduced to a scientifically repeatable and endlessly improvable process such as order fulfillment. Indeed, today's stultifying system stems from a 20th century impulse to systematize learning and give the classroom some assembly-line efficiencies.

Today, the use of computers is a parallel between running a business and running a classroom. It may be in the technology that empowers individuals, but many corporations,

advanced computer networks have given workers at all levels access to critical information. The effects can be invigorating: Employees gain autonomy and take more responsibility, organizational charts flattens, and enterprises become more responsive and efficient.

Likewise, computers can help children find and nurture their ability to learn. "We want to have kids perceive themselves as very capable learners and be responsible for their own learning," says Sally G. Narodnick, chief executive of software maker Edmark Corp. "We need to rethink the model, make kids the architects of their own learning, and make teachers the coaches. Amen."

Verity is BUSINESS WEEK's information processing editor.



DULLSVILLE: MULTIMEDIA OUTSHINES OLDER PCs—BUT SCHOOLS CAN'T DEPEND ON TECHNOLOGY ALONE

fore. Parents are seeing that the attention-grabbing new technology is a big improvement over the computer-literacy and "drill and kill" programs found in many elementary and secondary schools. But it would be terribly naive and shortsighted to expect that simply dropping better technology into a classroom can better educate children. They may become engrossed in the latest "edutainment module," but improvements won't come unless there's also a broad reevaluation of how teaching is done.

At least, that's the lesson one gleans from the painful struggle by corporations to wring a meaningful payback

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IS THIS ANY WAY TO INVEST IN SOUTH AFRICA?

Steve Goodwin's mutual fund hopes to raise \$125 million. But it's off to a rocky start



GOODWIN SAYS HE MADE SOME TECHNICAL SLIPUPS, BUT "I DIDN'T DEFRAUD ANYBODY"

It isn't exactly a typical resumé for success on Wall Street. Over the past 17 years, Stephen R. Goodwin has been suspended by the New York Stock Exchange, fined and suspended by the National Association of Securities Dealers, and expelled from the National Futures Assn. But that hasn't stopped Goodwin, the proprietor of a brokerage firm named Cartwright & Goodwin Inc., from assembling a roster of prestigious clients including IBM, the New York Power Authority, and New York's Metropolitan Transportation Authority. Now, Goodwin is angling for something bigger: He wants to become the first independent black Wall Street-er to put together an open-ended mutual fund investing in South Africa. Says

Goodwin, 45: "This is a fund designed by black people for the good of Africa."

It's called the First South African Fund. Goodwin hopes to raise as much as \$125 million and market the fund mainly to "big fish"—state and municipal pension funds that had boycotted South Africa in the face of international opposition to apartheid. The fund's 84-page prospectus is now being reviewed by the Securities & Exchange Commission.

A subsidiary with a spotless record will run First South African, says Goodwin

But Goodwin's record and the his brokerage and money-management operations could well investors on their guard.

WITHDRAWAL. For one thing, despite his gilt-edged clients, Goodwin's nine-year-old brokerage has never been more than a modest success. Even with affirmative-action programs encouraged by state, municipal, and corporate treasurers to trade with minority-owned brokers such as Goodwin, C&G achieved revenues of only \$196,000 in 1992, the most recent year for which figures on his privately held firm are available.

Much more important, Goodwin did not tell the SEC, prospective investors, or, a source says, even his own fund's attorney, the international law firm of Baker & McKenzie, about suspensions and fines by the NASD, NYSE, and National Futures Assn. dating back to 1977 (table, page 92). Goodwin was not strictly required to disclose by law, but such disclosure is customary for mutual-fund recruits. Goodwin says Baker & McKenzie did not ask him to detail NASD or other regulatory violations on its disclosure form.

I'd thought this pertained to the fund, he adds. "I would have said so." But the day after BUSINESS WEEK asked the firm on Feb. 3 if it was aware of Goodwin's regulatory record, Baker & McKenzie withdrew as the fund's counsel. Other than confirming the withdrawal, Baker declined to comment.

Goodwin, who serves as the fund's chairman, insists he won't scrap the South African. Moreover, he maintains that because a wholly owned subsidiary of his brokerage house, C&G Asset Management Inc., will actually run the South African, investors should be concerned. "C&G Asset Management has no legal, state, civil, or regulatory responsibilities whatsoever," Goodwin says. In response to numerous requests to respond to



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cific allegations against him, Goodwin also maintains that his run-ins with regulators stem from technical infractions. He chalks them up to overly enthusiastic enforcement of changing securities laws and to white investigators harassing a small, black securities dealer. "I don't even consider this a negative in my life," he says. "I didn't steal any money... I didn't defraud anybody. All I did was mess up a lot of administrative laws and procedures.... This is a whole lot of hulla-balloo over nothing."

BLANK SPACES. The SEC may see things differently. Gladwyn Goins, associate director of the commission's Investment Management Div., says the agency has sent Goodwin a letter asking him to correct "numerous serious deficiencies" in the fund's prospectus. Goins says they include blank spaces for the address of the fund, custodian, distributor, and disclosure of risks investors may face. An industry source, though, says that to get the review process started, many funds typically submit prospectuses without such information, then fill in the blanks in subsequent filings. Although Goins says the SEC routinely checks disciplinary records of fund applicants, it hasn't done so yet because the prospectus was so inadequate in other respects.

Goodwin's embellishment of his Wall Street record also may give investors cause for concern. Although he claims in publicity handouts and SEC filings to be a "world-renowned economist" with a B.S. in economics from Cornell University, Goodwin actually holds a degree in industrial and labor relations, the university says. He also claims to manage \$70 million. But that's news to officials of many of the 35 state and municipal pension funds C&G Asset Management listed as customers in the 1994 edition of *Money Market Directory*, a standard reference. It is published by Money Market Directories Inc., a unit of McGraw-Hill Inc., which also publishes BUSINESS WEEK. "I have no idea who they are," Dan Indiciani, controller of the Boston City Retirement System says of C&G. "He's not listed as one of our managers."

Goodwin maintains "the *Money Market Directory* list is people we have done business with on the broker-dealer,

asset-management side" since 1985, and that he is capable of managing a big mutual fund. Some customers praise his ability to make money for them by accurately calling turns in interest rates. "He has done well for us," says Wes Collins, deputy treasurer of the New York Power Authority, who trades part of the utility's \$1.5 billion fixed-income portfolio through Goodwin. "He's al-

the South African equity and bond markets, at \$9,995 per copy. But do the publications exist yet? "No," Goodwin says.

Even if the guides were available, Goodwin still lacks an essential qualification for any emerging-market fund manager: local experience. Although he professes to be an authority on South Africa, he has never visited the country. With South Africa facing possible

violence as elections approach in April, that may be a critical shortcoming. Says Paul Jardine, a New York-based expert on South Africa who consults for Lehman Brothers Inc.: "I know South African markets, but even I wouldn't try to watch the market from here."

So how will Goodwin scope out the best South African companies? "Once we put an advertisement in the papers, they'll find them," he says. Instead of hiring an on-the-scene money manager—commonplace at many international funds—Goodwin says he'll rely on a search from a Johannesburg stockbroker, Frankel M. Pollack Vinderine, and advice from Paul Sarnoff, a veteran precious-metals consultant and newsletter publisher based in Baldwin, N.Y. He plans to approach his mother, Thelma, a retired Internal Revenue Service secretary and student of black cultures, to join the fund's board. Says Goodwin, "She's really into this stuff."

of thing—looking into culture and tribalism." Goodwin isn't the only one bringing South African funds to market. Morgan Stanley & Co. and Alliance Capital Management are players. So is Bear Stearns & Co., in cooperation with London's Robert Fleming & Co. So in the end, some pros say, Goodwin's lone selling position will be the fund's concern for black business. Goodwin promises to invest 10% of First South African's assets in emerging companies run by blacks or other entrepreneurs. "Because he runs a minority firm, he does have some sympathy," says Jardine. "Maybe because of that he'll have better access." That may be true. But any investor in First South African might want to make a careful examination of its manager's record before writing out a check.

By William Glasgall in New York, and Michael Schroeder in Washington and Alan Fine in Johannesburg

GOODWIN'S RECORD

1977 Goodwin is barred from employment at any New York Stock Exchange member firm for six months. NYSE concluded he failed to disclose he had been fired by two brokerage houses.

1989 National Association of Securities Dealers (NASD) suspends Goodwin's firm, Cartwright & Goodwin, for failing to submit financial information.

1990 NASD fines Goodwin and C&G \$25,000. Goodwin is suspended from NASD for 20 days. The agency charges C&G failed to maintain enough capital, filed no annual report, and took part in at least two municipal-bond

underwritings without the association's approval.

1992 NASD fines Goodwin \$15,000 and suspends him for two years. NASD maintains Goodwin handled trades in equities although only registered to trade government securities. It also charges he failed to maintain enough capital.

1992 National Futures Assn. revokes Goodwin's membership for failing to pay the NASD's 1990 fine. Charges Goodwin didn't disclose his NASD record to futures-industry regulators and provided "disingenuous and unbelievable" testimony during a hearing on the allegation.

Goodwin maintains allegations against him are largely technical, stem from overly enthusiastic enforcement of changing securities laws, and represent harassment of a small, black securities dealer.

DATA: NATIONAL ASSOCIATION OF SECURITIES DEALERS, NATIONAL FUTURES ASSN., SECURITIES & EXCHANGE COMMISSION FILINGS

ways coming up with something new."

Goodwin insists his knowledge of the South African economy is just as keen. Brandishing a hypothetical blue-chip stock and bond portfolio, he says that, on paper at least, it has beaten the Johannesburg market since December. Says Goodwin: "You can make a hell of a lot of money—beyond your wildest imagination." Goodwin has even sent faxes to pension fund managers around the U.S., asking them to subscribe, "as soon as possible," to a pair of guides to

The SEC has already asked Goodwin to correct "serious deficiencies" in the fund's prospectus

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BY GENE G. MARCIAL

WHY DREYFUS MAY HELP ROUND OUT MELLON

When Mellon Bank stock tumbled to 51 on Dec. 8—down from 57 just two days before—money runner Edgar Wachenheim III jumped. He snapped up shares of the nation's 23rd-largest bank holding company at what he deemed a bargain. The stock had come under heavy selling pressure after Mellon announced it had agreed to acquire Dreyfus, the sixth-largest mutual-fund company, in a stock deal worth \$1.7 billion.

While arbitrageurs were buying Dreyfus shares and shorting Mellon, savvy pros such as Wachenheim felt it was worth going all out to accumulate Mellon stock because of what the deal would bring to Mellon's business.

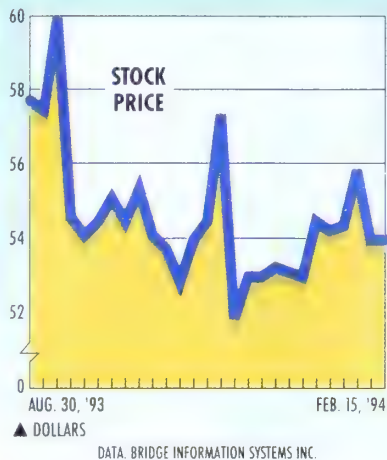
"Mellon is making a transition from being just a bank to becoming a high-quality, aggressive financial-services company," explains Wachenheim, chairman and CEO of Greenhaven Associates, an investment firm with assets of \$600 million.

With the Dreyfus acquisition, about 60% of Mellon's revenues would come from fees (as opposed to interest income) from such services as investment management and data processing for Dreyfus' more than 180 mutual funds—with total assets of \$80 billion. **BLUE RIBBON.** "Mellon will become the second-largest money manager [in the U.S.], with a total of \$215 billion," says Wachenheim. In first place is Fidelity Investments, which manages some \$250 billion.

Some analysts worry that the acquisition might slow Mellon's earnings growth. But not Wachenheim, who believes that, under Chairman and CEO Frank Cahouet, Mellon could extract the best from Dreyfus' investment and mutual-fund operations. Indeed, Cahouet stated on Feb. 8 that over the next two years Mellon's return on equity (with the Dreyfus merger) should reach 17%, and its return on assets 1.7%. Earnings growth, added Cahouet, should be in the double digits in 1995 and beyond.

Wachenheim figures that a 17% return on equity in 1996 will work out to earnings of \$8 a share. He calculates that a 1.7% return on projected

IS MELLON RIPE FOR A PICKUP?



assets of \$45 billion also works out to \$8, for the 95 million shares that will be outstanding after the merger.

The money manager reckons Mellon will be worth 96 a share in two years, with a price-earnings multiple of 12. He foresees earnings of \$6 a share this year, \$6.75 next year, and \$8 in 1996. "A p-e of 12 seems modest for a high-quality financial-services company with a projected annual double-digit growth rate," Wachenheim says.

A VERY BAD SCHOOL REPORT

You would think that after plunging from 48 to 26 in just three months the stock of Education Alternatives, a company that provides management services to schools, would be able to shake off the bears. Not quite. The shorts believe the stock could fall some more.

Others agree. "The stock will dive to a single-digit figure when things unravel," insists Howard M. Schilit, an accounting professor at American University and author of the recent book, *Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports*. "I won't be surprised if auditors find the company has been recording revenues inappropriately," he says.

Schilit says the company books as revenues the funds it receives to operate the schools, including teachers' salaries and other expenses it has no control over. Education Alternatives now says it will count only the consultant's fee it gets under its latest

contract—to administer two public elementary schools in Baltimore: They are "enterprise schools" to which the company can only make recommendations, thus placing it in a consultant role. These schools are separate from the nine elementary schools covered under a five-year contract with Baltimore City Public Schools, which gives Education Alternatives authority to manage most of the schools' operations. A spokesperson told BUSINESS WEEK the company won't change the way it reports revenues from the contract. "Our auditors have given a clean bill of health," she adds. Schilit, however, says the company should do the same for all contracts.

Stan Trilling of PaineWebber says the company's rich p-e "is a myth, because it had an operating loss in the first six months of this fiscal year."

ALL ABOARD AT OUTBOARD MARINE

Big players won't want to mount the boat in the next up cycle.

Outboard Marine, the world's largest maker of outboard motors and a major manufacturer of pleasure boats. They argue the stock is moving on its way to higher levels. Marine caught a wave in November, when it was trading at 17. It's now at 25.

"This is the time to get into the stock—when the momentum is on the upswing," says money manager Mark Boyar, who notes the stock has a history of sharp swings.

Outboard Marine, he argues, offers the savvy investor an opportunity to reap hefty winnings relatively quickly. Boyar notes that Marine hit a high of more than 30 in 1972, before diving to 5 by the end of 1974, when the embargo crisis hit. Then in 18 months the stock more than tripled, to 46, before plunging to 4 during the recession of 1980. Marine ran up again in 1989 to a high of 46 and then dropped to 9 in 1990.

Boyar believes the next target is around 50. He says recent restructuring has cut costs in many plants. "The perception is that demand for engines and boats is picking up smartly. That's when you'll see interest in the stock also start to jump," says Boyar.

The company lost \$8.41 a share in the year ended Sept. 30, 1993, versus a 10¢ gain in 1992. But S&P analyst Tom Graves figures Outboard will earn \$1.15 this year and \$2.75 in 1995.

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AT HOME ABROAD

Since closed-end funds have a foreign accent, a good guide helps

Investors who discovered global mutual funds last year and made a bundle may think themselves pretty shrewd. But those who played the global game with closed-end funds, which trade like stocks, left them in the dust. The average international closed-end fund—and a majority of closed-end equity funds do invest abroad—gained 52% in net asset value (NAV) and 72% by the market appreciation of their shares. By comparison, mutual funds investing abroad logged an average 42% gain.

But before you buy a ticket on the closed-end express, be aware that making money in these funds takes a lot of work—and nerve as well. The funds are usually smaller in size and less diversified than their mutual-fund cousins, traits that tend to supercharge their

gains in bull markets and accentuate the losses in a bear climate. Even the Brazil Fund, which earned the highest rating for risk-adjusted performance in the BUSINESS WEEK Closed-End Fund Scoreboard, has given shareholders a very wild ride. Its shares were down 48% and 4% in 1990 and 1992 and up 123% and 62% in 1991 and 1993.

BARGAINS LEFT. The Scoreboard can help you navigate the closed-end world. True, the Brazil Fund's risk is very high, but the Latin American Investment Fund and Templeton Emerging Markets earned nearly the same returns with far less volatility. The Scoreboard also covers closed-end bond funds, which, on average, beat their mutual-fund counterparts by several percentage points.

What makes investing in a closed-end fund tricky is that it usually sells at a

premium to its NAV when hot and at a discount when it's out of favor. American Investment and Templeton Emerging Markets are top-notch funds, but they're selling at double-digit premiums. So investors interested in those areas might well look for similar mutual funds instead. Paying the 5.75% sales charge of the Templeton Developing Markets Fund is better than buying the closed-end Templeton Emerging Markets, with a 14.6% premium before brokerage commissions—if that premium suddenly shrivels up.

But there are still bargains among the best funds. First Financial and Southeastern Thrift & Bank funds sell at discounts. Perhaps, with short-term interest rates moving up, investors believe that the best days of these funds

are behind them. "Looking ahead, we wouldn't expect the same kind of market return from these funds," says Caroline Gillis of Morningstar Inc., which provides the data for the Scoreboard. "But they're not going to crash and burn, either." Gillis thinks two more diversified U.S. closed-ends make good contrarian plays, too: General American Investors and the Jundt Growth Fund. Both invest in large-capitalization growth stocks, which are out of favor, and sell at discounts.

Foreign investing made its mark on the closed-end bond funds, too. International and multisector funds—when they blend foreign bonds with U.S. government and high-yield corporates—paced all but the pure junk funds. The multisector funds won top ratings in the Scoreboard, and they trade at discounts.

LOOK-ALIKES. In fact, all across the board, the value of closed-end bond funds, premiums are shrinking and discounts widening. Now, the average fund trades at a 0.7% discount vs. a 2.5% premium a year ago. One reason, says closed-end fund maven Thomas J. Herzfeld, is that bond fund managers have saturated the market with "too many look-alike funds." Then there are the dividend cuts. Feb. 11, for instance, the BlackRock Closed-End Funds slashed dividend

10 funds an average 9.7%, lowering prices an average 4% in two days.

Herzfeld, who manages portfolios of closed-end funds, sees dividend cuts as a buying opportunity. He bought BlackRock funds that others were dumping. That's fine for Herzfeld, who trades the funds full-time. But it could be a dicey strategy now for the buy-and-sell crowd. The same funds that are getting battered from the impact of falling rates may get hit again as rates continue to climb. Especially vulnerable are leveraged bond funds, which use borrowed money or preferred stock to increase the size of their portfolios.

Still, where there's risk, there's opportunity. And the place to start your search is in the Scoreboard, which begins on page 97.

By Jeffrey M. Laderer
in New York



Of the 225 closed-end funds in the Mutual Fund Scoreboard, only these 13 earned three upward-pointing arrows, the highest ranking for risk-adjusted total return for the 1991-93 period.

	Average annual total return*	Risk	Investment obj.
EQUITY FUNDS			
BRAZIL	56.0%	Very high	Latin America
EMERGING MEXICO	49.9	High	Latin America
FIRST FINANCIAL	67.9	Low	U.S.
LATIN AMERICA INVESTMENT	53.1	Average	Latin America
SOUTHEASTERN THRIFT & BANK	49.1	Very low	U.S.
TEMPLETON EMERGING MARKETS	51.0	Low	World
BOND FUNDS			
CIGNA HIGH-INCOME	34.0%	Low	Corporate high-yield
FRANKLIN MULTI-INCOME	28.4	Average	Multisector
FRANKLIN UNIVERSAL	31.3	Average	Multisector
HIGH-INCOME ADVANTAGE II	31.6	Low	Corporate high-yield
KEMPER MULTI-MARKET INCOME	27.1	Low	Multisector
PUTNAM HIGH-INC. CONVERTIBLE	30.6	Very low	Convertible
PUTNAM MANAGED MUNI. INCOME	15.0	Low	Municipal

*1991-1993. Pretax return based on net asset value appreciation plus reinvestment of dividends and capital gains

DATA: MORNINGSTAR INC.

MUTUAL FUND SCOREBOARD

	RATING	OBJECTIVE	RISK	SIZE	FEES	1993 RESULTS						TREND	PREMIUM/DISCOUNT	
				ASSETS \$ MIL	EXPENSE RATIO (%)	NAV RET. (%)		SHARES RET. (%)		YIELD (%)	3-YEAR ANALYSIS	DIFFERENCE FROM NAV		
						1 YR.	3 YRS	1 YR	3 YRS			1993 HIGH-LOW	2/11/94	
IS EXPRESS	AVG	U.S.	Low	840.6	0.35	8.2	16.0	0.1	17.1	2.3		3.8-10.8	-8.7	
NCE GLOBAL ENVIRONMENT		World	Average	78.3	1.62	-0.4	-3.6	0.0	-3.9	0.0		-10.1-16.2	-14.5	
ICA'S ALL SEASON		World	Average	45.9	2.21	11.4	4.2	12.6	1.2	1.8		-12.8-22.6	-14.8	
NTINA		Latin America		85.0	2.37	52.9	NA	41.1	NA	0.8		26.6-0.4	12.7	
IMITED		World	Very high	515.1	0.70	93.5	10.4	61.8	7.3	2.8		22.4-8.4	-3.1	
PACIFIC		Pacific	Average	298.2	2.36	107.3	42.6	106.3	60.4	0.2		34.9-5.6	12.4	
IA		Europe	Very high	84.1	2.13	37.6	-4.7	46.8	0.9	1.0		14.4-9.0	3.8	
FENTRESS	AVG	U.S.	Low	516.9	0.76	13.9	15.1	14.5	17.2	2.5		-12.7-18.9	-18.1	
TROM CAPITAL		U.S.	Average	117.6	0.79	-5.5	18.5	-27.0	19.5	1.2		32.4-0.6	0.6	
CHIP VALUE	AVG	U.S.	Average	84.2	1.24	13.3	16.1	13.6	22.8	2.3		7.9-2.2	0.6	
L		Latin America	Very high	253.7	1.95	54.2	56.0	60.9	51.0	0.4		3.1-12.7	-1.4	
LIAN EQUITY		Latin America		73.1	2.13	66.7	NA	72.1	NA	0.5		12.1-15.5	18.4	
AL FUND OF CANADA		U.S.	High	89.6	1.04	24.3	2.4	44.2	6.7	0.2		14.6-11.8	6.3	
AL SECURITIES		U.S.	Low	218.9	0.63	36.8	30.9	47.7	37.6	1.1		1.4-16.3	-5.5	
LES ALLMON TRUST		U.S.	Very low	125.0	1.35	7.3	7.4	7.2	5.2	1.7		-1.1-7.2	-4.9	
		Latin America	Average	282.5	1.79	41.6	46.4	46.9	57.8	1.5		10.6-9.5	4.0	
		Pacific		161.6	2.67	47.8	NA	125.8	NA	0.3		40.0-8.4	23.5	
NTE GLOBAL GROWTH	AVG	World	Average	72.8	1.68	39.1	16.1	54.0	18.0	NM		-7.6-17.8	-6.8	
I & STEERS REALTY INCOME		Income	Low	24.5	1.54	22.7	28.4	27.8	38.6	7.2		12.7-2.0	6.4	
ERTIBLE HOLDINGS INCOME	AVG	Income	Very low	137.5	0.81	12.0	12.2	5.7	11.3	11.3		25.9-13.5	15.2	
SELLORS TANDEM	AVG	U.S.	Average	78.2	1.25	7.0	12.1	6.2	13.4	0.0		-9.0-16.2	-15.9	
PHELPS UTILITIES INCOME	AVG	Income	Low	2017.8	0.98	8.4	14.4	8.7	15.5	7.0		10.3-1.2	2.7	
ING GERMANY		Europe	High	137.3	1.56	33.4	3.3	49.1	9.1	0.0		-1.3-15.3	-8.5	
ING MKTS INFRASTRUCT		World		194.7	NA	NA	NA	NA	NA	NA		15.1-15.1	4.4	
ING MARKETS TELECOM.		World		184.3	1.99	73.2	NA	121.3	NA	0.5		26.3-6.1	15.7	
ING MEXICO		Latin America	High	150.6	1.82	51.2	49.9	71.6	68.3	0.7		15.7-10.2	-2.3	
		U.S.	High	13.6	2.99	13.8	21.3	16.4	22.7	0.0		-13.5-26.7	-23.1	
E		Europe	High	127.5	1.54	27.5	5.7	41.9	13.4	0.5		19.6-8.1	1.9	
EAN WARRANT		Europe	High	128.0	1.80	125.9	27.8	118.5	36.8	0.0		13.9-10.6	6.8	
AUSTRALIA	AVG	Pacific	High	119.5	1.87	43.9	16.0	56.1	20.9	1.1		2.1-14.8	2.2	
INANCIAL		U.S.	Low	174.6	1.25	43.2	67.9	39.2	66.0	0.0		-2.6-12.7	-9.4	
BERIAN		Europe	Very high	57.1	2.31	28.5	4.4	45.9	6.1	0.7		3.3-17.6	0.9	
SRAEL		World		81.0	2.41	16.6	NA	26.5	NA	0.8		8.6-16.8	18.3	
PHILIPPINE		Pacific	Average	231.3	1.72	104.5	47.1	136.2	59.4	NM		-7.7-26.3	-14.4	
IE GROWTH		Europe	Average	148.9	1.69	22.9	8.9	47.3	17.7	0.0		13.5-12.2	2.2	
E GERMANY		Europe	Average	213.4	1.32	35.6	8.6	41.0	13.5	0.5		-1.4-13.9	-9.6	
I EQUITY		U.S.	Low	937.7	1.16	22.8	17.9	36.9	20.9	1.1		8.2-8.5	5.9	
I II CAPITAL		U.S.	Average	241.4	0.00	18.1	25.2	33.6	28.8	0.0		-9.7-21.1	-13.2	
I II INCOME	AVG	Income	Very low	101.9	NA	13.1	13.4	10.7	15.1	14.1		35.7-17.6	25.7	
AL AMERICAN INVESTORS		U.S.	Average	553.9	1.16	-1.8	17.9	-15.9	21.3	0.2		7.8-10.5	-12.7	
INY		Europe	Average	171.1	1.61	34.1	7.9	26.4	7.1	0.6		20.7-7.0	2.0	
L HEALTH SCIENCES		U.S.		250.1	1.39	-3.7	NA	-1.6	NA	1.8		-1.5-14.9	-14.6	
R CHINA		Pacific		160.8	2.31	82.1	NA	121.7	NA	0.0		15.3-10.1	10.7	
TH FUND OF SPAIN		Europe	High	200.0	1.22	28.8	4.6	34.4	8.6	0.0		-1.9-15.7	-8.0	
REATER EUROPE		Europe	Average	232.4	1.92	39.7	9.7	66.1	17.7	1.7		5.5-16.0	-0.3	

† available. NM = Not meaningful

DATA: MORNINGSTAR INC., CHICAGO, IL

HOW TO USE THIS TABLE

End funds are publicly traded companies that own assets of securities. Their results are measured two ways. First, the change in net asset value (NAV), which is generally the fund's manager. The other is the change in the market price. Total returns, which include dividends and capital gains, are shown for one- and three-year periods under the heading "1993 Results." The three-year figure is an average annual return. All returns are pretax.

STARS WEEK RATING Ratings are based on three-year adjusted performance of the fund's portfolio. A rating is calculated by subtracting a fund's risk-of-loss factor from total return. Equity funds are rated against each other on an above average rating, must beat the S&P 500 risk-adjusted basis. For ratings purposes, municipal funds are separated from all other bond funds.

- Superior
- Very good
- Above-average
- Average
- Below-average
- Poor
- Very poor

RISK For each fund, the monthly Treasury bill return is subtracted from the monthly NAV return in each of the 36 months of the rating period. When a fund has underperformed Treasury bills, this monthly result is negative. The sum of these negative numbers is then divided by the number of months. The result is a negative number, and the greater its magnitude, the higher the risk of loss.

EXPENSE RATIO Fund expenses for 1993 as a percent of average net assets. Ratio may include interest expense.

YIELD The income a fund earned on its portfolio investments during 1993, expressed as a percentage of the fund's year-end net asset value per share, adjusted for capital gains.

MATURITY For bond funds, the average maturity of the securities in a fund's portfolio, weighted according to the market value of these securities.

TREND A fund's relative performance during 1991, 1992 and 1993. The boxes read from left to right, and the level of green in each shows how the portfolio of each equity fund performed relative to other equity funds, and bond funds relative to other bond funds: for the top quartile, for second quartile, for third quartile and for bottom quartile. An empty box indicates the fund was not rated for the time period.

PREMIUM/DISCOUNT Closed-end funds rarely traded at their net asset value. Their market price is either less than the value of their securities, a discount, or more, a premium.

MUTUAL FUND SCOREBOARD

	RATING	OBJECTIVE	RISK	SIZE	FEES	1993 RESULTS					TREND	PREMIUM/DIS
				ASSETS \$ MIL	EXPENSE RATIO (%)	NAV RET. (%) 1 YR.	NAV RET. (%) 3 YRS.	SHARES RET. (%) 1 YR.	SHARES RET. (%) 3 YRS.	YIELD [%]		
H & Q HEALTHCARE INVESTORS	AVG	U.S.	High	104.1	1.84	-8.0	18.7	-7.9	20.4	0.0		8.0 - -11.8
H & Q LIFE SCIENCES INVESTORS		U.S.		51.9	2.17	-2.4	NA	-7.0	NA	0.0		6.1 - -10.8
HAMPTON UTILITIES CAPITAL	AVG	U.S.	Average	16.3	0.00	12.6	16.0	17.2	21.3	1.1		0.5 - -10.2
HAMPTON UTILITIES PFD.		Income	Very low	10.0	0.45	8.6	8.7	8.1	10.9	7.7		7.8 - 1.8
INDIA GROWTH	AVG	Pacific	Very high	94.9	2.79	34.1	18.1	110.6	46.7	0.0		52.0 - -3.7
INDONESIA		Pacific	High	61.3	2.10	80.3	10.8	130.6	28.3	0.0		47.9 - 4.1
INEFFICIENT MARKET	AVG	U.S.	Average	54.8	1.24	8.9	14.3	6.4	11.7	0.1		-9.9 - -16.9
IRISH INVESTMENT		Europe	High	49.4	1.88	26.8	5.3	40.8	11.3	0.8		-2.8 - -18.6
ITALY		Europe	Very high	60.9	1.60	24.0	-4.2	37.8	2.3	0.7		19.1 - -8.0
JAKARTA GROWTH		Pacific	High	51.1	1.93	63.2	6.6	94.1	27.0	0.4		34.9 - -2.4
JAPAN EQUITY		Pacific		68.4	1.18	23.6	NA	87.5	NA	NM		31.7 - -13.7
JAPAN OTC EQUITY		Pacific	Very high	76.2	1.52	29.3	0.8	29.5	6.3	0.0		23.0 - -9.0
JARDINE FLEMING CHINA		Pacific		188.1	2.01	74.3	NA	100.1	NA	0.4		18.5 - -11.6
JUNDT GROWTH		U.S.		224.3	1.40	0.2	NA	-4.0	NA	0.1		-1.5 - -11.4
KOREA	AVG	Pacific	High	490.4	1.52	56.8	16.4	71.5	26.4	0.1		44.2 - 10.3
KOREAN INVESTMENT		Pacific		52.3	2.27	25.2	NA	69.4	NA	0.0		44.8 - 7.0
LATIN AMERICA EQUITY		Latin America		136.0	2.35	61.7	NA	89.5	NA	0.0		22.3 - -9.4
LATIN AMERICA INVESTMENT		Latin America	Average	141.5	2.60	55.4	53.1	98.8	77.0	0.5		22.6 - -9.6
LATIN AMERICAN DISCOVERY		Latin America		180.3	2.33	53.1	NA	104.7	NA	0.0		16.4 - -13.8
LIBERTY ALL-STAR EQUITY	AVG	U.S.	Low	713.7	1.08	8.7	17.5	12.6	26.0	1.0		7.6 - -0.7
MALAYSIA		Pacific	Average	265.4	1.60	94.0	36.7	99.1	41.9	0.5		15.0 - -8.7
MEXICO		Latin America	High	1363.7	1.08	57.2	50.0	82.4	62.5	1.4		6.4 - -20.6
MEXICO EQUITY & INCOME		Latin America		183.9	1.62	46.6	NA	86.5	49.6	1.6		15.6 - -17.6
MFS SPECIAL VALUE		Income	Very low	87.9	1.22	24.0	26.6	35.3	36.4	3.3		13.6 - -0.6
MORGAN GRENELL SMALLCAP		U.S.	High	67.3	1.38	9.9	20.0	-1.6	16.4	0.0		3.9 - -12.4
MORGAN STANLEY EMERG. MKTS.		World		412.0	1.92	96.7	NA	103.8	NA	0.0		18.0 - -4.3
NAIC GROWTH		U.S.	Low	8.1	2.00	4.7	10.6	0.8	-3.6	0.7		10.1 - -15.3
NEW AGE MEDIA§		U.S.		215.8	NA	NA	NA	NA	NA	NA		12.0 - -2.3
NEW GERMANY		Europe	Average	386.6	1.28	30.5	4.8	41.8	7.0	0.7		-0.8 - -13.7
PETROLEUM & RESOURCES		U.S.	Average	355.8	0.65	15.4	9.4	17.3	11.4	2.9		-2.7 - -11.7
PILGRIM REG BANKSHARES		U.S.	Low	167.8	1.44	6.1	29.1	4.2	27.5	3.4		1.7 - -12.1
PORTUGAL		Europe	High	65.9	2.07	45.2	6.2	76.6	15.9	0.0		9.2 - -10.9
PREFERRED INCOME		Income		210.6	1.50	15.0	NA	4.0	NA	7.4		11.5 - -3.2
PUTNAM DIVIDEND INCOME		Income	Very low	203.9	1.70	18.5	19.8	-1.2	17.4	10.3		10.9 - -11.4
QUEST FOR VALUE CAPITAL		U.S.	Low	487.7	0.00	4.0	23.2	5.3	31.4	0.0		-6.5 - -15.8
QUEST FOR VALUE INCOME	AVG	Income	Very low	209.1	0.73	10.2	10.7	12.3	11.7	9.8		17.8 - 11.1
R.O.C. TAIWAN		Pacific	High	296.0	1.98	26.3	7.7	59.1	25.4	1.1		29.5 - -11.0
ROYCE OTC MICRO-CAP.§		U.S.		71.1	NA	NA	NA	NA	NA	NA		5.5 - 3.2
ROYCE VALUE		U.S.	Low	246.6	0.81	17.4	24.8	14.9	25.4	0.6		0.7 - -7.1
SALOMON BROS	AVG	U.S.	Low	1175.9	0.41	14.1	16.3	7.8	17.8	2.4		-7.2 - -14.9
SCUDDER NEW ASIA		Pacific	Average	178.0	1.76	73.2	25.7	95.6	34.5	1.0		22.8 - -3.3
SCUDDER NEW EUROPE		Europe	Average	177.8	1.72	25.6	5.4	41.0	11.6	0.0		3.2 - -13.7
SINGAPORE		Pacific	Average	122.8	2.42	79.3	25.8	175.7	49.8	NM		35.8 - -11.7
SOURCE CAPITAL	AVG	U.S.	Low	330.5	0.96	6.3	13.7	-1.4	15.5	2.8		17.4 - 3.3
SOUTHEASTERN THRIFT & BANK		U.S.	Very low	37.9	1.69	30.1	49.1	43.2	58.4	1.1		-5.2 - -18.2
SPAIN		Europe	Very high	95.6	2.24	23.1	0.1	39.4	4.4	NM		14.2 - -5.8
SWISS HELVETIA		Europe	Average	184.7	1.53	45.6	18.1	66.5	25.6	0.4		8.5 - -8.1
TAIWAN	AVG	Pacific	High	162.8	2.67	36.6	16.6	109.7	24.5	0.3		51.2 - -6.3
TEMPLETON CHINA WORLD§		Pacific		361.2	NA	NA	NA	NA	NA	NA		11.5 - 0.1
TEMPLETON EMERGING MARKETS		World	Low	364.4	1.84	97.2	51.0	103.1	56.9	1.0		43.7 - 10.6
TEMPLETON GLOBAL UTILITIES		World	Low	48.6	1.41	29.7	20.7	36.0	24.3	3.4		25.4 - 3.4
THAI		Pacific	Average	401.0	1.53	98.2	48.4	104.9	37.1	1.0		9.5 - -12.4
THAI CAPITAL		Pacific	High	146.8	2.44	102.9	47.3	109.5	54.6	0.7		5.4 - -11.7
TRI-CONTINENTAL	AVG	U.S.	Low	2203.8	0.68	9.0	14.3	3.0	13.9	3.2		-8.5 - -14.8
TURKISH INVESTMENT		Europe	Very high	80.8	2.04	151.6	12.9	171.3	29.5	0.3		32.2 - -7.3
UNITED KINGDOM		Europe	Average	51.3	1.56	26.4	11.5	46.3	20.3	1.0		4.6 - -12.8
WORLDWIDE VALUE		World	Average	55.5	2.30	30.0	8.9	39.4	12.0	0.6		-6.7 - -16.3
Z-SEVEN		World	Average	27.2	1.53	12.5	11.8	10.6	14.6	0.0		15.4 - -4.4
ZWEIG	AVG	U.S.	Low	534.8	1.26	13.3	14.6	15.5	18.7	4.5		19.5 - 8.1
ZWEIG TOTAL RETURN		U.S.	Low	648.5	1.13	10.7	10.7	18.2	18.7	5.7		18.3 - 10.4

NA = Not available; NM = Not meaningful; § = New fund; less than 12 months total return *As of 2/10/94. **As of 2/7/94.

See page 97 for an explanation on how to use this table

DATA: MORNINGSTAR INC., CHICAGO

MUTUAL FUND SCOREBOARD

DEPEND
OND

	RATING	OBJECTIVE	RISK	SIZE	FEES	1993 RESULTS				PORTFOLIO		TREND	PREMIUM/DISCOUNT				
						ASSETS \$ MIL	EXPENSE RATIO (%)	NAV RET. (%)		SHARES RET. (%)			YIELD (%)	MAT (YRS.)	3-YEAR ANALYSIS	DIFFERENCE FROM NAV	
								1 YR	3 YRS	1 YR	3 YRS					1993 HIGH	LOW 2/11/94
GOVERNMENT INCOME		Multisector	High	616.0	1.52	23.5	16.6	31.6	19.0	8.1	11.7		10.9 - -7.1	12.7			
GOVERNMENT OPPORTUNITY		Multisector	High	116.9	1.21	21.3	16.5	21.2	-17.9	6.9	13.1		3.7 - -5.7	5.0			
GOVERNMENT SECURITIES		Multisector	High	829.8	1.47	22.8	16.4	32.1	20.5	8.9	11.5		9.1 - -8.2	9.3			
GOVERNMENT SPECTRUM		Multisector	High	345.4	1.29	24.3	15.9	29.5	19.8	9.0	15.5		5.5 - -7.3	9.6			
MANAGED INCOME		Multisector	Average	330.9	1.05	30.7	23.8	39.6	32.1	8.9	11.2		19.4 - 2.6	17.2			
MANAGED MULTI MKT. TRUST		International	High	97.9	2.18	11.1	5.2	10.6	-0.1	7.4	2.7		-2.2 - -8.5	-8.9			
STRATEGIC INCOME	AVG	Convertible	Very low	68.1	1.47	11.5	13.0	4.6	13.4	5.5	11.5		0.4 - -8.1	-12.2			
ICAN ADJ RATE 1995	AVG	Government	Low	108.5	0.70	6.0	7.7	1.4	6.1	5.2	18.0		5.7 - -1.0	1.6			
ICAN CAPITAL BOND	AVG	Corp General	Average	240.8	0.71	14.8	13.7	7.0	15.9	7.6	20.3		3.8 - -7.6	-9.1			
ICAN CAPITAL CONV. SECS.	AVG	Convertible	Average	80.7	0.88	14.6	16.8	19.5	18.7	4.8	12.0		-6.4 - -14.0	-8.4			
ICAN CAPITAL INCOME		Corp General	Low	124.7	0.99	14.4	19.5	11.8	24.2	9.9	13.4		3.6 - -6.3	-7.1			
ICAN GOVT. INCOME		Government	Very high	172.4	0.99	13.1	17.8	15.7	19.1	10.4	6.5		13.9 - -0.4	4.8			
ICAN GOVT. INCOME PORT.		Government	High	238.8	0.95	8.5	17.2	14.1	19.9	11.1	6.5		10.9 - 2.4	5.7			
ICAN GOVT. TERM.		Government	High	79.2	0.86	12.0	11.5	-1.5	8.4	6.1	8.0		17.2 - 0.5	4.5			
ICAN OPPORTUNITY INCOME		Government	Very high	214.9	1.10	12.2	17.3	6.7	20.4	15.1	6.1		16.3 - 3.8	7.5			
MUNICIPAL		Municipal	High	204.4	0.81	11.6	6.0	12.1	3.9	8.0	23.7		7.3 - -5.1	1.7			
ROFT CONVERTIBLE		Convertible	Low	67.1	1.20	17.0	19.5	24.2	24.1	5.3	13.0		-2.8 - -11.7	-6.2			
ROCK ADVANTAGE TERM		Government	Very high	153.2	1.14	11.1	12.2	9.3	11.7	7.7	12.0		4.6 - -6.7	-8.2			
ROCK INCOME		Government	High	816.2	1.03	4.4	9.8	3.7	6.3	10.6	7.0		5.6 - -8.2	-2.0			
ROCK NORTH AM. GOVT.		International		816.1	0.98	6.6	NA	1.0	NA	10.2	10.0		9.5 - -7.0	-2.0			
ROCK TARGET TERM		Government	Very high	1505.6	0.73	8.6	11.9	7.3	8.0	7.3	7.0		-1.1 - -5.6	-7.0			
ER HILL INCOME SECS.	AVG	Corp General	Average	46.3	1.02	14.8	14.7	8.3	15.7	8.5	15.1		-1.1 - -9.8	-5.8			
E CONVERTIBLE		Convertible	Low	60.1	1.06	15.5	20.8	23.2	27.1	6.1	13.6		-0.8 - -9.7	-7.2			
A HIGH-INCOME		Corp Hi Yld	Low	195.5	2.90	22.0	34.0	20.3	46.8	11.9	8.0		17.6 - 7.2	15.7			
HIGH-YIELD SECURITIES		Corp Hi Yld	Low	42.8	3.27	24.1	28.1	23.3	34.9	9.9	7.0		10.1 - -3.1	0.5			
INCOME SHARES	AVG	Corp General	Average	34.3	0.94	11.8	11.7	16.4	14.3	8.7	9.5		1.0 - -7.9	-7.2			
INCOME SHARES	AVG	Corp General	Average	85.1	0.84	13.3	16.8	17.2	25.2	9.3	12.8		20.1 - 8.3	14.9			
NIAL HIGH-INC. MUNI.		Municipal	Average	268.2	0.98	6.7	7.0	8.0	5.7	8.2	24.0		6.5 - -6.0	-1.0			
NIAL INTERMARKET INCOME	AVG	Multisector	Average	130.3	1.04	17.2	15.6	23.7	20.9	8.7	11.9		2.6 - -3.3	2.2			
NIAL INTERMED HIGH-INCOME		Corp Hi Yld	Very low	95.2	3.66	19.6	27.9	23.0	35.3	10.3	8.4		10.1 - -4.8	-1.1			
NIAL INVST. GRADE MUNI.		Municipal	Average	127.3	0.89	7.9	8.0	-2.2	5.7	7.3	21.8		11.1 - -6.2	-2.5			
NIAL MUNICIPAL INCOME		Municipal	Average	211.8	0.84	6.0	6.0	15.4	9.6	8.0	20.9		9.7 - -5.4	7.9			
ERTIBLE HOLDINGS CAP.	AVG	Convertible	High	161.4	0.00	13.9	24.7	30.5	42.2	0.0	13.0		-17.7 - -28.9	-23.1			
NT INCOME SHARES		Corp General	High	52.1	0.90	14.3	14.9	10.6	11.2	7.5	19.6		-1.2 - -9.0	-10.4			
WITTER GOVT. INCOME		Government	Average	536.5	0.70	5.9	8.2	7.4	9.0	8.8	7.9		-3.4 - -7.6	-6.9			
US MUNI. INCOME		Municipal	Average	205.8	0.83	11.9	11.5	8.0	12.7	6.7	23.2		7.3 - 1.7	1.3			
US STRAT. GOVT. INCOME		Multisector	High	164.0	0.88	10.0	9.4	-1.6	8.9	9.1	8.1		9.2 - -6.6	-1.4			
US STRAT. MUNI. BD.		Municipal	Average	450.3	0.84	8.9	9.5	10.0	12.2	6.7	23.4		7.0 - -0.1	3.7			
US STRAT. MUNICIPALS		Municipal	Very low	566.4	0.87	10.7	10.0	12.4	11.2	6.6	22.7		9.6 - 1.0	8.0			
BOND-DEBENTURE	AVG	Corp General	Average	74.6	0.88	13.3	15.6	8.4	13.1	7.7	21.8		12.5 - -0.3	-4.4			
ORTH CONVERT. GROWTH & INC.		Convertible	Low	64.8	1.20	16.5	19.5	21.5	22.9	5.7	11.7		-6.3 - -12.4	-10.5			
IOR INCOME SHARES		Corp General	High	42.1	0.81	10.9	11.4	6.8	11.2	8.2	10.2		-2.8 - -9.5	-10.5			
AUSTRALIA PRIME INCOME		International	Very high	1212.2	1.44	19.1	12.9	17.0	18.8	9.1	7.2		13.5 - -2.2	1.5			
IOSTON INCOME		Corp General	Average	219.3	0.91	18.0	19.1	12.4	22.0	10.6	9.4		7.5 - -9.4	-9.2			
IOSTON STRAT. INCOME		Multisector	Average	88.3	1.11	17.3	18.9	8.8	19.1	10.1	7.6		6.6 - -9.9	-10.1			
COMMONWEALTH		International		96.2	1.73	19.4	NA	16.6	NA	8.1	8.1		2.2 - -9.9	-6.2			
DEARBORN INCOME		Corp General	High	148.8	0.76	13.1	13.5	11.5	11.5	7.5	15.1		2.6 - -11.3	-7.1			
SECURITIES		Corp General	Low	124.0	0.80	12.2	14.0	4.8	15.5	9.5	9.5		15.5 - 4.5	1.4			
LIN MULTI-INCOME		Multisector	Average	80.8	2.89	18.6	28.4	20.0	27.2	7.9	9.4		-4.2 - -9.0	-7.2			
LIN PRINCIPAL MATURITY	AVG	Multisector	Average	201.7	3.32	26.9	19.3	23.9	15.7	6.3	10.0		-6.3 - -13.5	-13.7			
LIN UNIVERSAL		Multisector	Average	338.0	3.24	22.0	31.3	17.6	31.9	9.2	9.9		-0.6 - -10.5	-6.6			
IL GOVERNMENT PLUS		International	Very high	357.8	1.08	18.7	9.7	11.7	10.1	7.4	11.6		-2.6 - -10.7	-12.3			
IL INCOME PLUS		International	High	252.9	1.50	16.7	10.5	15.3	8.2	8.7	7.8		2.9 - -5.9	-1.4			
IL YIELD		International	Very high	579.9	1.00	18.0	8.3	16.4	9.0	8.6	9.1		-0.1 - -11.3	-11.7			
IAS INCOME SECS.	AVG	Corp General	Low	55.3	0.97	14.3	14.4	8.6	17.4	8.1	14.7		17.8 - 3.4	5.9			
INCOME ADVANTAGE		Corp Hi Yld	Low	183.5	0.97	28.7	29.6	21.4	35.4	11.0	8.1		7.1 - -2.0	-1.1			
INCOME ADVANTAGE II		Corp Hi Yld	Low	243.4	0.95	30.5	31.6	27.6	42.0	10.4	7.9		4.5 - -2.4	-4.8			
INCOME ADVANTAGE III		Corp Hi Yld	Low	94.3	1.06	27.5	28.5	31.7	35.1	11.3	8.0		10.0 - -1.1	0.7			
IELD INCOME		Corp Hi Yld	Very low	85.7	2.20	20.9	25.7	30.9	35.4	11.0	8.7		14.5 - 0.8	12.2			
IELD PLUS		Corp Hi Yld	Very low	98.7	1.72	22.7	27.5	22.1	33.0	9.5	10.6		4.5 - 5.6	-0.5			

if available. NM = Not meaningful. \$ = New fund; less than 12 months' total return

See page 97 for an explanation on how to use this table

DATA: MORNINGSTAR INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

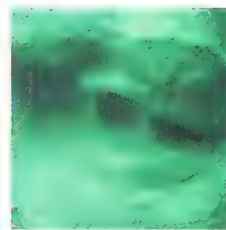
	RATING	OBJECTIVE	RISK	SIZE ASSETS \$ MIL	FEES EXPENSE RATIO (%)	1993 RESULTS				PORTFOLIO		TREND 3-YEAR ANALYSIS	PREMIUM/DIS DIFFERENCE FROM 1993 HIGH-LOW
						NAV RET (%)		SHARES RET (%)		YIELD (%)	MAT (YRS.)		
						1 YR	3 YRS	1 YR	3 YRS				
HYPERION TOTAL RETURN		Multisector	High	262.6	1.07	8.6	10.7	-0.1	11.3	11.1	10.5		12.8 -7.3
INA INVESTMENT SECS.		Corp General	Average	94.5	0.97	13.6	13.4	14.3	16.1	7.8	14.0		-5.0 -10.3
INDEPENDENCE SQUARE INC. SECS.	AVG	Corp General	Average	33.8	0.82	11.8	13.8	6.8	15.2	6.9	20.8		-0.1 -9.6
INTERCAPITAL INCOME SECS.	AVG	Corp General	Average	228.7	0.66	10.8	13.5	7.7	13.4	8.7	15.3		13.6 -0.2
JOHN HANCOCK INCOME		Corp General	Average	162.8	0.85	13.3	13.1	7.2	12.6	7.9	17.1		4.7 -2.8
JOHN HANCOCK INVESTORS	AVG	Corp General	Average	170.4	0.85	13.3	13.2	5.3	14.7	7.7	16.7		10.9 -1.0
KEMPER HIGH-INCOME	▲ ▲	Corp Hi Yld	Very low	212.1	1.82	21.4	30.3	11.7	31.6	10.9	9.2		13.1 -1.9
KEMPER INTERMED. GOVT.		Government	Average	292.7	0.92	6.0	8.7	5.2	6.8	8.5	3.8		2.6 -5.4
KEMPER MULTI-MARKET INCOME	▲ ▲ ▲	Multisector	Low	224.8	0.97	14.5	27.1	19.5	29.2	8.3	8.1		3.0 -5.5
KEMPER MUNICIPAL INCOME	▲	Municipal	Average	701.4	0.69	14.7	14.0	14.2	14.4	6.4	22.9		5.0 -4.3
KEMPER STRAT. MUNI. INC.	▲ ▲	Municipal	Low	129.2	0.74	12.3	11.4	9.9	11.1	7.0	19.1		10.6 -0.0
KLEINWORT AUSTRALIAN INC.		International	Very high	75.0	1.47	16.9	12.1	12.9	13.8	8.1	5.6		-2.4 -10.3
LINCOLN NATIONAL INCOME		Corp General	High	113.2	0.83	15.6	14.5	17.4	19.9	8.3	9.7		7.8 -4.9
MENTOR INCOME(a)		Government	Average	130.4	2.04	10.4	10.9	-2.3	9.7	10.0	24.1		7.9 -8.5
MFS CHARTER INCOME	AVG	Multisector	Average	918.7	0.91	14.6	15.3	11.2	14.7	7.6	8.6		-1.5 -10.7
MFS GOVT. MARKETS INCOME		Multisector	High	745.9	0.95	12.4	9.7	9.3	8.4	6.6	8.5		-1.5 -11.5
MFS INTERMEDIATE INCOME		Government	High	1568.3	0.96	12.7	9.6	11.1	9.6	6.7	6.8		-2.8 -11.4
MFS MULTIMARKET INCOME	AVG	Multisector	Average	921.7	1.14	13.5	13.8	6.0	12.6	7.9	12.3		1.9 -12.3
MFS MUNICIPAL INCOME	▲	Municipal	Very low	335.2	1.47	8.9	8.3	20.2	13.3	7.4	20.2		10.7 -4.6
MONTGOMERY STREET INCOME	AVG	Corp General	Average	200.5	0.76	12.5	15.8	2.0	14.3	7.8	15.7		11.5 -2.6
MUNICIPAL HIGH INCOME	AVG	Municipal	Low	187.8	0.87	8.1	9.1	6.0	8.7	7.1	20.9		4.7 -3.5
MUNICIPAL INCOME	AVG	Municipal	Low	355.8	0.67	8.2	9.4	12.6	13.0	6.3	22.0		7.3 -2.2
MUNICIPAL INCOME OPP.		Municipal	Average	184.1	1.08	4.6	5.3	11.2	5.0	7.8	20.8		2.2 -10.9
MUNICIPAL PREMIUM INCOME	AVG	Municipal	High	416.6	1.38	15.0	14.3	12.2	16.0	7.0	23.6		7.2 -0.1
MUNIENHANCED		Municipal	Very high	519.0	0.68	16.1	14.7	8.2	15.6	6.5	22.9		7.8 -3.2
MUNIINSURED		Municipal	Very high	84.1	0.80	12.5	11.1	13.6	12.3	5.5	21.6		4.5 -3.2
MUNIVEST		Municipal	Very high	904.7	0.65	16.1	13.7	6.9	14.1	7.1	22.1		11.4 -3.7
NEW AMERICA HIGH INCOME	▲ ▲	Corp Hi Yld	Average	210.7	3.45	34.4	31.0	40.3	43.3	11.6	9.6		4.6 -10.7
NUVEEN MUNI ADVANTAGE	AVG	Municipal	High	982.6	0.77	13.2	13.2	6.7	12.2	7.5	24.5		7.5 -3.7
NUVEEN MUNI VALUE	AVG	Municipal	Low	1807.2	0.74	8.3	9.5	-2.6	7.5	6.6	22.0		9.5 -5.1
NUVEEN PERFORMANCE PLUS	AVG	Municipal	Average	1322.0	0.76	11.3	12.6	12.7	13.6	7.3	24.2		6.3 -1.5
NUVEEN PREMIUM INCOME	▲	Municipal	Average	1203.8	0.79	8.9	11.2	5.3	10.8	8.2	23.2		11.2 -0.1
OPPENHEIMER MULTI-GOVT.		Multisector	Average	56.5	1.22	10.8	10.2	5.2	10.3	10.0	10.9		6.1 -9.3
OPPENHEIMER MULTI-SECTOR	▲	Multisector	Low	319.2	1.00	16.6	14.7	13.5	16.5	9.1	9.1		5.6 -3.5
PACIFIC AMERICAN INC. SHS.	▲	Corp General	Low	151.4	0.75	14.4	15.1	16.9	17.8	7.6	12.9		3.3 -5.4
PILGRIM PRIME RATE	AVG	Corp General	Very low	717.0	1.41	6.4	7.2	3.8	NA	6.5	0.1		-4.3 -9.3
PIONEER INTEREST SHARES (b)		Corp General	High	105.5	0.82	10.1	11.2	1.7	11.9	8.1	13.9		10.4 -2.9
PROSPECT STREET HIGH INCOME	▲	Corp Hi Yld	Average	141.7	2.13	21.5	28.6	17.8	33.8	12.0	8.5		10.1 -9.0
PUTNAM HIGH INCOME CONV.	▲ ▲ ▲	Convertible	Very low	126.8	1.03	23.4	30.6	18.7	38.0	8.9	10.3		13.3 -10.9
PUTNAM HIGH YIELD MUNI.	▲ ▲	Municipal	Low	249.0	1.17	13.1	11.9	10.5	17.7	7.3	22.9		16.1 -3.6
PUTNAM INTERMED. GOVT. INC.		Multisector	High	585.6	0.92	9.2	10.4	4.1	7.6	6.9	13.5		0.1 -9.7
PUTNAM INVST. GRADE MUNI.	▲	Municipal	High	405.8	1.45	17.3	15.9	15.2	17.4	6.7	22.5		9.7 -1.3
PUTNAM MANAGED MUNI. INC.	▲ ▲ ▲	Municipal	Low	649.1	1.22	16.7	15.0	13.4	16.0	6.8	23.2		8.4 -0.9
PUTNAM MASTER INCOME	▲	Multisector	Low	511.3	0.92	16.1	17.7	10.2	18.5	8.6	12.6		-1.3 -9.9
PUTNAM MASTER INTERMED.	▲	Multisector	Low	350.0	0.96	14.4	16.6	10.4	17.5	8.7	10.2		-0.1 -9.4
PUTNAM PREMIER INCOME	▲	Multisector	Average	1273.0	0.84	15.7	15.7	12.6	16.3	8.7	13.6		-2.0 -10.1
SALOMON BROS HIGH INCOME§		Corp Hi Yld		72.5	1.10	NA	NA	NA	NA	NA	10.9		10.1 -0.2
STATE MUTUAL SECURITIES	AVG	Corp General	Average	101.2	0.75	12.7	14.6	7.0	16.0	7.8	11.6		4.3 -7.1
TCW CONVERTIBLE SECURITIES	▲	Convertible	Average	273.2	0.60	21.1	23.0	16.7	24.7	3.7	10.4		15.5 -1.7
TEMPLETON GLOBAL GOVTS.		International	Very high	188.8	1.05	10.2	7.4	-0.5	4.1	9.3	8.3		7.3 -4.9
TEMPLETON GLOBAL INCOME		International	Very high	1029.9	0.79	13.0	9.5	-7.0	7.2	8.3	8.9		10.2 -9.5
TRANSAMERICA INCOME	AVG	Corp General	Average	161.9	0.35	14.5	14.4	10.2	14.6	7.6	23.2		4.4 -5.0
US&G PACHOLDER	▲ ▲	Corp Hi Yld	Very low	53.8	2.18	20.6	25.0	27.1	36.1	9.4	6.9		10.6 -3.1
USLIFE INCOME	▲	Corp General	Low	58.0	1.23	16.2	17.8	10.5	22.6	8.7	18.6		6.7 -1.6
VAN KAMPEN INTERMED. H/I	▲ ▲	Corp Hi Yld	Very low	151.1	1.70	21.8	29.8	26.1	43.5	12.2	5.4		28.6 -16.4
VAN KAMPEN INVST. GRADE		Municipal	High	84.0	1.35	14.3	11.5	10.3	12.3	7.3	22.8		16.9 -1.4
VAN KAMPEN LIMITED H/I	▲ ▲	Corp Hi Yld	Low	117.8	1.64	27.6	29.8	17.0	38.7	12.3	7.0		20.6 -8.6
VAN KAMPEN MUNI. INC.	AVG	Municipal	High	469.9	1.25	12.7	13.9	5.2	15.8	7.1	20.3		13.7 -3.2
VESTAUR SECURITIES	AVG	Corp General	Average	101.1	0.90	11.7	12.5	10.7	12.2	7.7	19.3		3.4 -4.4
ZENIX INCOME	▲ ▲	Corp Hi Yld	Low	148.4	2.69	27.3	28.8	33.7	34.2	10.5	5.4		10.6 -2.4

NA = Not available NIM = Not meaningful § = New fund, less than 12 months' total return. (a) Formerly RAC Income Fund. (b) Formerly Mutual of Omaha Interest Shares

See page 97 for an explanation on how to use this table

DATA. MORNINGSTAR INC., CHI

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RADIO SHACK GOES BACK TO THE GIZMOS

The mundane electronic stuff is where the profits are

Leaders would like something ruder than a computer. Leonard H. Roberts, president of Radio Shack, has a plan to land the electronics chain a piece of the market by going back to the basics. "We're going to focus on the mundane electronic stuff," he says. "That's where the profits are."

wrap and card included.

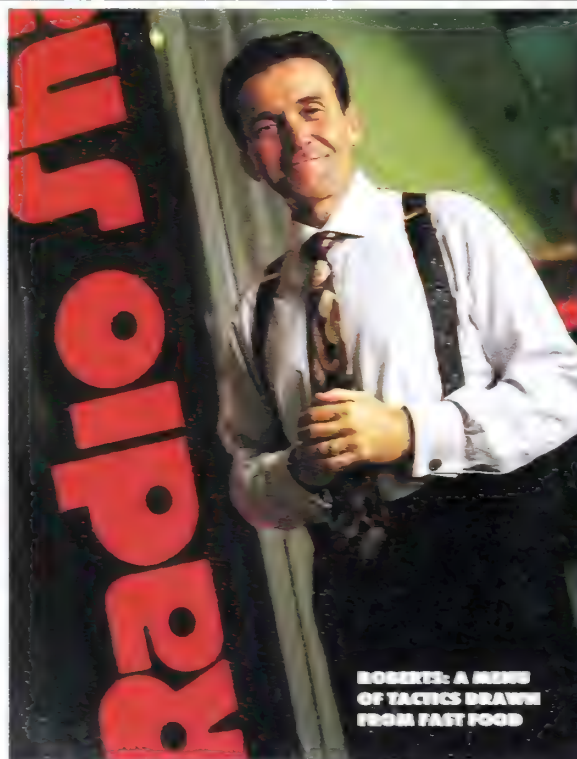
Roberts' strategy for putting some spice back into Tandy Corp.'s lackluster cash cow

the helm at Radio Shack last year. "We're going to turn around the 6,700-store chain," he says. "We're going to make Radio Shack the na-

could triple Tandy's revenues by the end of 1993. "We have the potential to be a \$1 billion company," he says. "That's a very characteristic Texas hyperbole. Wall Street, which had been urging Tandy to get out of computer manufacturing, is buying in. Investors have pushed Tandy's stock price up to 50, from the mid-20s a year ago.

A shift in focus in computer sales. "It's the pressure to develop new revenue streams. Computer City and Tower Computer will be big cash cows for a long time," says Roberts. "But it's not T. Bone Prime Associates Inc." means Radio Shack will have to wait to cash in on a lot of cash for a time.

TRUCK STOPS. Enter Roberts. His strategy is to take Radio Shack for what it is: a chain of small, 10,000-sq-ft, times-dowdy stores with a reputation as a place to go for stereo tape and auto maintenance equipment. Roberts is to use those points of differentiation that have been crunched as a basis for the sale of 10,000 sq ft of merchandise as an estimate, entry point for new services. "The key is to force those things the customer already loves about us," Roberts says.



ROBERTS: A MENU OF TACTICS DRAWN FROM FAST FOOD

SHACK ATTACK

Leonard H. Roberts' turnaround strategy for Radio Shack:

ADVERTISING In May, will roll out new ads to reposition chain as provider of consumer-electronics services.

MERCHANDISE Will focus on products it dominates, such as electronic parts, accessories, specialty equipment, with less emphasis on big-ticket items, where margins are slim and competition fierce.

GIFT SERVICE Will launch new service that lets customers go to a store, buy Radio Shack merchandise, and have it sent anywhere in the U.S.

REPAIR SERVICE In March, will begin testing a service offering repairs of all types of consumer electronics, regardless of the brand or where the product was purchased.

BY MICHAEL W. BAKER

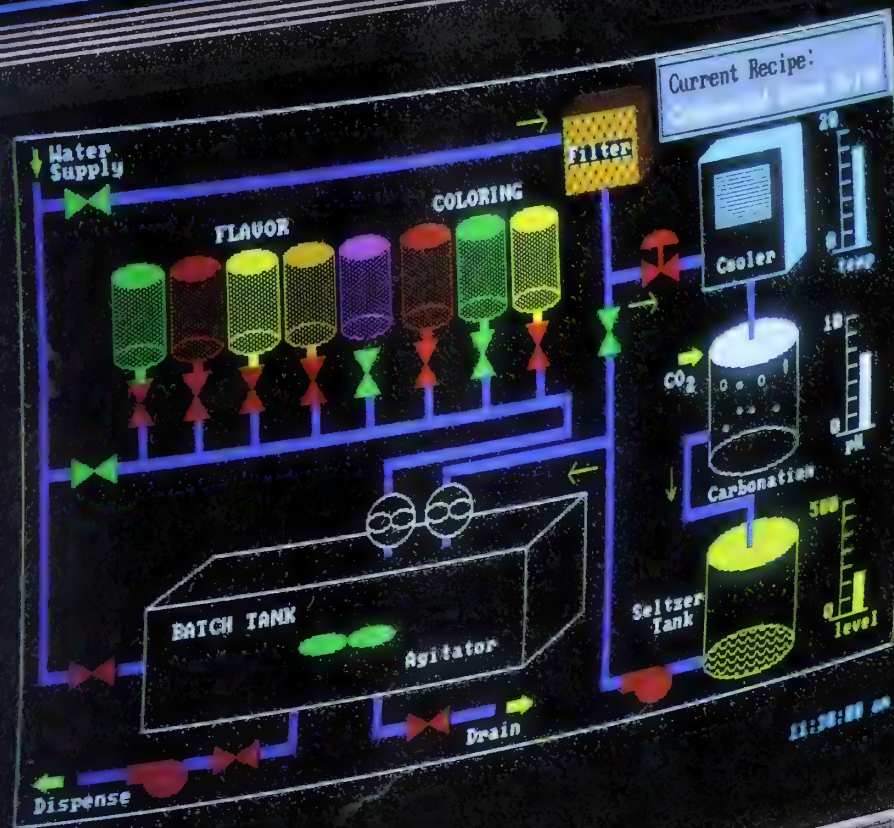
TEXAS HYPERBOLE.

Roberts' strategy for putting some spice back into Tandy Corp.'s lackluster cash cow is to focus on the mundane electronic stuff. "We're going to focus on the mundane electronic stuff," he says. "That's where the profits are."

is. Radio Shack's sales and profits have been flat for four years. Personal computer sales in the mid-1990s to 14% today. "We're going to focus on the mundane electronic stuff," he says. "That's where the profits are."

label goods and out-of-warranty repairs. "We're going to focus on the mundane electronic stuff," he says. "That's where the profits are."

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Tax-Exempt Intermediate-Term	3.81%	5.29%	5.52%	5.95%
Tax-Exempt Long-Term	4.36%	6.06%	6.32%	6.81%

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Marketing

name make repairs ripe for the take.

In the stores, meanwhile, Roberts is emphasizing Radio Shack's core electronic products, parts, and accessories, such as telephones, toys, antennas, and batteries. The chain will still carry upper-end equipment, such as personal computers, TVs, stereos, for customers who are intimidated by the megastores. But it will promote those products heavily: The price competition from discounters makes margins too slim. Radio Shack's core products—virtually all private label—are lucrative, giving it gross margins around 50%.

Roberts is also applying some fast tactics: He has launched a couponing and a discount card for preferred customers. He has also entered some unconventional sales outlets, offering CB radios and cellular phones at Union 76 stops. And in May the chain will introduce its first ad campaign from an outside agency, Young & Rubicam Inc.

COUPON BLIZZARD. How much will it yield? Roberts told analysts he thinks the repair business, now \$70 million, could grow to \$500 million in five years. He estimated the gift service, which plays on convenience, could be a \$1 billion business. Those are highly ambitious targets. According to the Commerce Dept., consumers spent \$1 billion in 1993 repairing audio and equipment. Radio Shack has to spend more than 13% of that to hit its targets. Meantime, Shelby A. Fleck, an analyst at Morgan Stanley & Co., doubts the gift service will bring in new shops. "If customers are not already shopping at Radio Shack, it seems unlikely they will now visit the stores because they can mail an item as a gift."

Radio Shack's 2,100 franchise dealers are hopeful but wary. Libby Boveri Hermiston, Ore., says she's glad to get "new blood." But the coupon blizzard cost her money. Boveri says coupons went up about 65% but resulted in less than a 1% increase in her sales. "Coupons don't work in retail like they work in fast food," she says.

Still, there's no question that Roberts is looking at the chain with a fresh eye. "He's really trying to take advantage of the national position of Radio Shack," says Carl Steidtmann, chief economist at Waterhouse's Management Horizons consulting group. Ultimately, the real test of Roberts' menu won't be just how the new services do. It will be whether they bring more customers into the stores. If Roberts can pull that off, there may still be some kick left in the cash cow.

By Stephanie Anderson Forest in Worth

ON HOW TO DESIGN A TOTAL COMMUNICATIONS SOLUTION.

like it reliable."  When you're as service-oriented as we are, you can't afford any surprises at the front line.



Venture Stores

OK, you need 105 little phones and one big one (for the receptionist)."

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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

SLUGFEST IN THE SERVICE BIZ

A slew of lawsuits has allowed new contenders to muscle in

Gene Dillon, a supervisor of print services at Sprint Corp.'s Westwood (Kan.) headquarters, had long complained to Xerox Corp. that its maintenance on five Xerox laser printers at Sprint's headquarters was too slow—and getting slower. Last year, he finally did something about it, contracting with Copier Services Unlimited, an independent service organization (ISO) that promised more attentiveness for less money. When Xerox learned that a competitor for this sliver of its service business had surfaced, the company dispatched a senior customer service official to Westwood to plead its case. But, says Dillon, "it was too little, too late."

That the opportunity to service five printers would cause Xerox to fly an executive to Kansas instead of relying on local personnel to handle the flap isn't as surprising as it sounds. Xerox currently counts on its service division to pull in \$6 billion, or 45% of the company's \$13.4 billion in gross revenues, says B. Alex Henderson, an analyst at Prudential Securities Inc. And Xerox isn't alone. Experts estimate that many manufacturers rely on service-related businesses, also called aftermarkets, for up to 50% of their gross revenues—particularly in those industries where competition among hardware sellers is especially grueling. In high-tech industries alone, service revenues are expected to reach \$160 billion by 1995.

"Manufacturers use service as a way of making profit," says Donald F. Blumberg, a Fort Washington (Pa.) consultant specializing in service industries. "It's like the razor business. You almost want to give the razor away, because

the money is really in the razor blades."

Now, these so-called service annuities are under attack. In perhaps as many as 60 lawsuits, manufacturers of everything from copiers to computers to medical equipment to air conditioners are being dragged into court by ISOs who contend that the manufacturers have gone too far to protect their lucrative turf. Dozens of companies, including Eastman Kodak, Wang Laboratories, Honeywell, and Data General, are being accused of deliber-



Independents charge that manufacturers go too far to protect their lucrative turf

ately keeping competitors out of service markets by following restrictive policies, such as refusing to sell parts or supplies—conduct that could violate antitrust laws (table, page 106). "Third-party maintenance organizations are really muscling their way into markets to which they were not invited," says Rodger D. Young, a lawyer in Southfield, Mich., who represents independent service organizations.

ISOs started to make headway by winning an important ruling in a Supreme Court decision. The decision was brought by 18 service suppliers, accusing Kodak of illegally tying the sale of its products to its service. Although the court didn't rule on whether Kodak's specific practices were unlawful, its decision paved the way for a barrage of suits claiming antitrust violations in industries where manufacturers limit competition in aftermarkets.

PACKAGE DEAL. At issue is a common business strategy employed by manufacturers: companies that invest in developing

creating products: When customers buy equipment, manufacturers are strongly encouraged to buy a comprehensive service package. The power of a brand name, access to customers, and strict policies have for the most part allowed manufacturers to dominate their maintenance markets. "Manufacturers are being hassled," says Daniel M. [Name], who is representing Kodak in three antitrust cases.

is ordinary competitive behavior that is subject to them to expensive, consuming litigation. Kodak denies any wrongdoing as do the other companies named in these suits.

But advocates for the ISOs say there's nothing ordinary about excluding competitors from markets. Richard Watkins, CEO of Copier Services, Xerox' rival, says new parts are obtained through a limited number of suppliers, many of whom are foreign, or through Xerox. But Xerox may claim ISOs a steep premium

when it deigns to sell to them. For example, a photoreceptor belt, chased from a third-party vendor, cost Watkins \$325; he says Xerox would charge him more than \$900. "The just want a level playing field," says Ronald Katz, an attorney who

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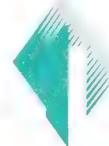
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Legal Affairs

that antitrust suits on behalf of consumers. Whether such behavior is illegal merely spread business is debated. But in court, the suits have made progress. In December, without admitting guilt, Xerox announced it would sue \$225 million in certificates to its customers and is to settle a class action. The certificates will be good only for buying Xerox products. The court also agreed to sell parts directly to competitors. A federal judge in Texas is expected to finalize the deal in Mar.

Xerox says the settlement was just a business decision that will compel a company to be even more aggressively seeking to hold onto service work, such as the one it lost at Sprint. "What we've found, frankly, was that we weren't prepared at the point of sale really ensure that our people knew to market and to sell the value that Xerox has vs. the competitor," says Xerox' David T. Erwin, vice-president strategy and integration. "But we the annuity stream is vital to us, and will be highly competitive in securing that business." Erwin adds that his confident Xerox will be able to hold competitors from taking a big bite of its service income.

HANDSHAKES. Other companies, such as Allen-Bradley Co., have also settled cases challenging parts policies—though terms of most of the settlements kept secret. The shifting legal lands and the promise of more open markets has led to a fourfold increase in number of ISOs over the past five years from 300 to 1,200. The bulk are mid-and-pop shops capable of challenging manufacturers on a local level rather than on a national scale. What's more, manufacturers, noting the opportunity in servicing other companies' products, have gotten into the act. Three years ago, almost no manufacturers offered such services. Today, 750 companies have started multibrand service outfits, including IBM, Digital Equipment, and Unisys, says consultant Blumberg.

Growth in the service marketplace indicates that many manufacturers are signed to greater competition for maintenance contracts—and that has resulted in friendlier relations. For the first time, representatives from IBM, Hewlett-Packard, and DEC are scheduled to fly to Freeport, Bahamas, to participate in annual meeting of Independent Service Network International, the largest trade group. The topic for the evening set to begin Feb. 27, will be Margin Markets: Seizing Opportunities To Grow for 21st Century Growth.

Yet while some companies are joining the pack, others are more focused

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TAKING ON THE GIANTS

XEROX Accused of anticompetitive practices to dominate the copier-service market. A proposed \$225 million class-action settlement, which requires Xerox to sell its parts to competitors, goes before a federal judge for approval on Mar. 11.

ASTMAN KODAK Suits in Texas and California allege that Kodak illegally refuses to sell parts and supplies for photocopiers to independent service organizations. The first trial is scheduled for January, 1995.

ONEYWELL Accused of illegally making the maintenance of its dustriul-control products to the purchase of equipment. A trial is set for this summer in Detroit.

ORTHERN TELECOM Plaintiffs allege that Northern Telecom refuses to sell software for its PBX switches anyone who uses a third-party maintenance organization. A trial is expected later this year.

DATA: BUSINESS WEEK

ing the antitrust cases. Kodak, Honeywell, and Northern Telecom, for instance, show no sign of giving in to plaintiffs' demands. And their lawyers state the motivation isn't just profits. What's at stake for manufacturers is the ability to control quality of product distribution systems," says James Burling, a defense lawyer for Northern Telecom Inc., which is accused of getting out ISOs from servicing its tele-switching equipment. Settling up a fight has led to some very counterattacks. Several manufacturers have sued ISOs for copyright or patent infringement—in effect charging competitors with using the manufacturers' proprietary parts or diagnostic software without first gaining permission or securing licenses. Thus far, they have been sympathetic to these suits. "You can't say you've suffered antitrust injury if it's an injury to a business that was founded on copyright infringement," says Wall. Last year, IBM Systems Support Corp. was ordered to pay Data General \$52.3 million for making and using copies of Data General's software to maintain its computers. The case is on appeal. No doubt these nasty legal skirmishes continue to multiply. But in a market that has grown exponentially in the few years—and will continue to expand—there should be plenty of business to go around.

By Linda Himelstein in New York

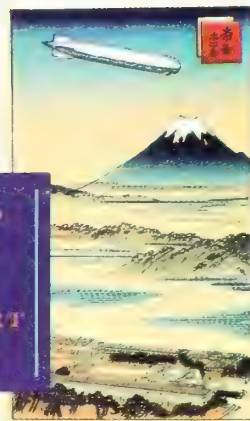


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FUTURES: DARE YOU DEFY THE ODDS?

Rick Powers, a New London (Conn.) financial planner specializing in charitable giving, gave two adult daughters some unusual birthday presents. The value of one gift depended on whether India tightened up on cotton exports; the other on whether Japanese smelters reduced their copper production: Both of them were futures contracts. His 27-year-old daughter, Jennifer Ligeti, received a December cotton contract. Daughter Kristin Harkness, 31, got copper futures. The investments paid off. Before fees, Ligeti's contract generated a tidy \$1,100 profit from a measly 2.2¢ rise in cotton. Her sister's made \$1,250 on a 5.3% copper-price hike.

Most individual investors in commodities don't fare as well as the Powers clan. Industry experts claim that between 75% and 90% of all small-time investors lose money in the futures markets—and counsel them to avoid this risky game.

SCARE EASY? Yet thousands of small investors say there is nothing like the thrill of speculating, not to mention that folks who have the knack can earn lucrative paybacks. Commodities are "the last great secret that's being kept from the public," says Philip Gotthelf, president of Equidex, which publishes futures information. He growls that the media and investment community "always try to scare the public away."

For those who don't scare easy, market conditions make this a favorable time to experiment with commodities. While many people believe stocks are overvalued, leaving few opportunities for ag-

gressive investors, the commodities markets have been relatively depressed for years—until lately. The market rose 11.6% in 1993, the biggest percentage gain in 10 years, as measured by the Knight-Ridder Commodity Research Bureau Futures Price Index. The rising trends should continue, as the U.S. economy improves and as Europe and Japan ease out of recession, creating more demand for physical commodities, says Bill O'Neill, senior futures strategist at Merrill Lynch.

There has been a resurgence of interest in commodity futures among small investors, notes Morton Lane, president of Lind-Waldock & Co., a dis-

count commodity brokerage in Chicago that in 1993 saw about a 25% increase in new accounts over 1992. People have been willing to take more risks as the economy

has improved. And with recent dramatic weather, as floods along the Mississippi River and blizzards in the Northeast, it hasn't been long for neophytes to guess prices of corn and natural gas would rise.

Professionally managed futures funds and pools have enjoyed enormous growth—late—but with mixed success. Total assets in these funds have jumped from about \$1 billion in 1985 to \$23 billion today, according to Managerial Account Rep.



W 1 9 4

in New York, which the performance of fund managers. But funds, which have huge expenses and often require minimum initial investments, are best used to add diversification. Studies have shown they don't correlate with the market and an actual hedge to reduce risk in a stock and bond portfolio.

They do not offer protection from the volatility of commodity markets. MAR's index of 511 public and private pools saw a handy 15.2% in 1993 but in 1986, the index fell 11.5%.

Managed futures are a far cry from the high-stakes of trading individual commodities. Critics as Gotthelf say that in order to reap management from some brokerage firms "load" small investors into funds—even though some of the investors really do trade their own accounts. "That's sort of a problem because it reduces the potential substantially," says.

SPOTS. Understanding commodity futures work involves some concentration and a lot of study. A contract is an agreement between a party to sell and the other to buy a set quantity of a commodity at a specified time and price. What creates the trading profit potential of these contracts—and the enormous risks—is that they are highly leveraged. That is, you usually need to put up only from 3% to 10% of a contract's value to benefit from price changes. Yet your exposure, or the amount at risk, is much greater.

Powers, for example, had put up only about \$1,000 margin to buy his daughter a contract for 50,000 pounds of cotton at 57¢ a pound. Yet he controlled a total of \$28,500 in cotton. When the price went up, to 59.2¢,

he made 2.2¢ on each pound, or \$1,100 in total profits before trading costs. But if the price of cotton had fallen 2.2¢, Powers would have owed his broker that \$1,100. Cotton, like most other commodities, has a limit on how much the price can move in one day, and the market will "lock"

the materials, you can pick a trading strategy you're comfortable with. Many individuals use "technical" analysis—poring through charts to pick out historic pricing patterns. But other speculators base trades on "fundamental" analysis, a look at the forces of supply and demand in a given market. Of course, the funda-

serendipity with skill. If you have come up with something that works, follow it religiously. The reason so many investors lose money is because they get greedy and ignore their system, Gotthelf says.

Brokerages will ask for information on your investment experience, net worth, and annual income before they will

KNOW THE STAKES

Commodity	Contract size	Current price*	Total contract value	Minimum** you put up	Value of 5% price move	Consider factors like these
COTTON	50,000 lb.	.77¢/lb.	\$38,360	\$1,200	\$1,918	Weather in China, Pakistan, and U.S.
GOLD	100 troy oz.	\$384/oz.	38,430	1,330	1,922	Inflation, interest rates
CRUDE OIL	1,000 bbl.	\$14.13/bbl.	14,130	1,550	707	Global economy, OPEC agreements
ORANGE JUICE	15,000 lb.	\$1.10/lb.	16,462	1,000	823	Climate in Florida and Brazil
PORK BELLIES	40,000 lb.	.56¢/lb.	22,248	1,080	1,112	Hog feed cost, domestic weather
SOYBEANS	5,000 bu.	\$6.84/bu.	34,188	1,350	1,710	Soil moisture in U.S. and Brazil

* As of Feb. 14, 1993 **Exchange initial margin requirements

SOURCE: Lind-Waldock & Co., Merrill Lynch & Co.

up or down if it moves more than 2¢. That can prevent individuals from getting out of positions that are going sour, so losses can mount for days.

Indeed, the odds are stacked against most individuals. Market moves are fast and sharp, and small investors are competing against the pros: huge grain traders, investment banks, and institutional traders with seats on the floors of the exchanges. By the time you call your broker to react to news in the market, the change may already be reflected in the price. Even after you place an order, the price will probably change slightly before it is executed, a factor known as "slippage."

A number of resources can aid those ready to take the plunge. John Wiley & Sons (800 225-5945) offers several books on futures trading, including *Getting Started in Futures* by Todd Lofton (\$16.95). The exchanges themselves are eager to help individuals learn what to do and will supply free brochures, such as *Introduction to Meat and Livestock Fundamentals* from the Chicago Mercantile Exchange (800 331-3332).

Once you have scrutinized

mentals you need to consider are different for every commodity. Whatever strategy you choose, you will need to find sources for commodity information. Knight-Ridder (800 621-5271) offers charting services, and Weather Services Corp. in Bedford, Mass. (800 634-2549), provides global forecasts.

Many commodity traders also sell trading systems to the public. But these can

accept your business, although you can open an account with as little as \$5,000 at some firms. If you want some advice and hand-holding, find an experienced full-service broker, who will charge you \$70 and up per "round trip" trade. Or you can get in and out of a market for \$30 or less through a discount broker.

BEATING RETREAT. Dealing with reputable brokers and advisers and understanding the impact of commissions are just as important as understanding the nature of the investments, says Denis Klejna, who is director of enforcement at the Commodity Futures Trading Commission. Check out your broker and firm by calling the free hotline provided by the futures industry's regulatory agencies: 800 676-4632.

Whatever you do, don't play with more money than you can afford to lose. If you quickly blow the amount you have allocated for trading commodity futures, it's best to retreat to safer ground. You can always play the stock market. But, as Powers says, "after trading commodities, trading stocks is like watching the grass grow." Amey Stone

**BEFORE YOU
INVEST MONEY,
TEST YOUR SYSTEM
BY "PAPER TRADING"**

be of questionable merit. According to Hulbert's Financial Digest, which tracks two such newsletters, *Futures Hotline* has lost a total of 19% in the past six years, and *Timing Device* lost 16% in 1993. As a rule, you should make sure you understand the logic behind the trade before accepting anyone else's suggestion.

Before putting money on the line, test your system by "paper trading," and do it for long enough so you won't confuse

Golf

HOW WOMEN CAN LINK UP ON THE LINKS

Mixing business and golf has long been a largely male pastime. It was de rigueur for the fellows to entertain business contacts on the links. But it was unusual for females to do it. Now, stereotypes have changed.

The 3,600-member Executive Women's Golf League is helping give females more opportunity to network with others who enjoy the sport. Seasoned golfers can compete in tournaments such as the second annual Business Links '94, held earlier this month in Palm Beach, Fla. Tyros can attend clinics on topics such as correcting hooks and slices.

In 2½ years, the league has blossomed to 63 chapters. It

will try to match up partners of comparable ability. "When the newcomer comes in, we make her feel like part of the family," says Nancy Oliver, who started the league, which also boasts veterans such as Janina Jacobs, 38, a Detroit restaurateur who in the mid-'70s was the first woman on the men's golf team at Wayne State University. "We don't want to be allowed in the men's locker room. We just want to play golf," Jacobs says. (Lest chauvinists cry foul, there are 15 males in the league.)

EQUAL PARTNERS. Golfers interested in joining can call 407 471-1477 or write 1401 Forum Way, Suite 100, West Palm Beach, Fla. 33401. Dues are \$52 a year and include a quarterly publication and discounts on magazines and greens fees.



Just like men, women hope to parlay 18 holes of schmoozing into something more profitable back at the office. In fact, the league has run seminars on how to incorporate golf into business. Jane Shumaker, an associate vice-president for operations at Dean Witter Reynolds in Buffalo, plays with bankers and brokers in local tournaments. Helped by contacts made on the links, Shumaker has be-

come president of a securities company. The surge in women's golf is limited to the league, of course. Some 40% of new players in 1990 are female, according to the National Golf Foundation in Jupiter, Fla. At the nation's million registered players, an estimated 5.4 million or 22%, are women. In fact, in

schools specialize in teaching golf to women, including Lene Floyd's For Women Golf School (800 637-2699) in Hilton Head, S.C., and (Zavichas Golf School (800 9633) in Pueblo, Colo. The Golf Foundation (800 733-) can put you in touch with other organizations. Reach a certain level of proficiency, the only professional handicap you'll have will be on your scorecard. *Debra Wolfe*

Smart Money

THE REDEEMING FEATURES OF REDEMPTION FEES

Investors put off by mutual funds having redemption fees may want to reconsider: The penalties strapped on folks who exit the funds too quickly may benefit investors with more staying power.

Mutual funds in such emerging markets as Asia and Latin America are among the 150 or so that carry redemption fees to curb excessive trading. The fees typically range from 1% to 2% on shares cashed in within the first three months to a year. Scudder Latin America and T. Rowe Price Latin America, for instance, levy 2% fees on shares held less than 12 months. And Fidelity's Emerging Markets, Latin America, and Southeast Asia funds charge 1.5% for bailing out in the first three months.

Individuals often shy away from funds with redemption fees, confusing them

with back-end loads, the sales commissions incurred when they sell shares. Yet unlike commissions and other fees pocketed by management, redemption fees are typically reinvested in the fund, where they may boost returns. "It's a fair fee that's looking out for all investors," says Don

Phillips at Morningstar Inc. in Chicago.

The fees compensate investors who stay put for the actions of the few betting on short-term price gyrations. "Redemption fees send a message that people should not enter these funds with the idea of making a killing in three months and getting out," says Dan Gross, director of marketing at Scudder Stevens & Clark funds.

"ONEROUS"? Fees make most sense in funds focusing on volatile and thinly traded markets. Fund managers investing in emerging markets can have a hard time

redeeming the shares of long-term investors. And funds investing in the junk-bond market are also adding redemption fees. T. Rowe Price Associates Inc. imposed a 1% fee on shares of its High-Yield Fund purchased after July 3, 1990, and held less than a year.

While mutual-fund companies say such fees aren't onerous, "redemption fees reduce your flexibility," notes Sheldon Jacobs, editor of *No-Load Fund Investor*. He tells investors to generate a list of funds with no fees levied after more than 12 months.

Redemption fees have been around—and unpopular—for about 10 years. In 1980, Baron Asset Fund and 1 Value Fund, which focus on small-capitalization stocks, dropped the fees in 1992 because managers found them inhibited sales. Perhaps redemption fees are like a spoonful of medicine—hard to swallow but good for you in the end. *Susan Scheraga*

FUNDS WITH REDEMPTION FEES

Fund	Fee
T. ROWE PRICE INTL. DISCOVERY FUND	2% for shares held less than 12 months*
FIDELITY CAPITAL & INCOME FUND	1.5% for shares held less than 12 months
MERRILL LYNCH LATIN AMERICA	2% for shares held less than 12 months
DREYFUS NEW LEADERS FUND	1% for shares held less than 6 months

*For shares purchased after Feb. 27, 1991

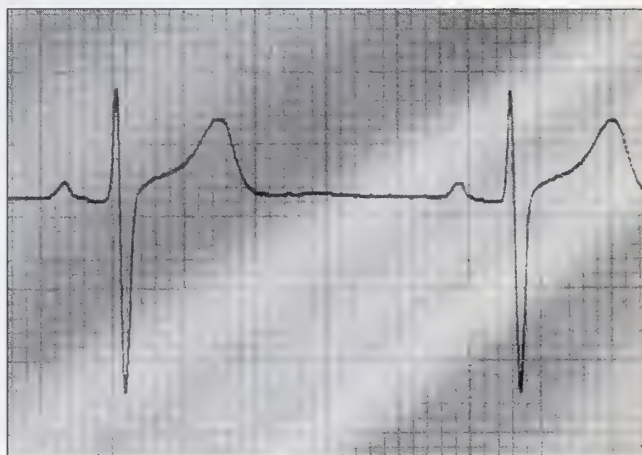
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rent	852631
depreciation Exp	258196
ilities	83237
egal Exp	78278
Health Ins. Exp	942415
total Exp.	10068221

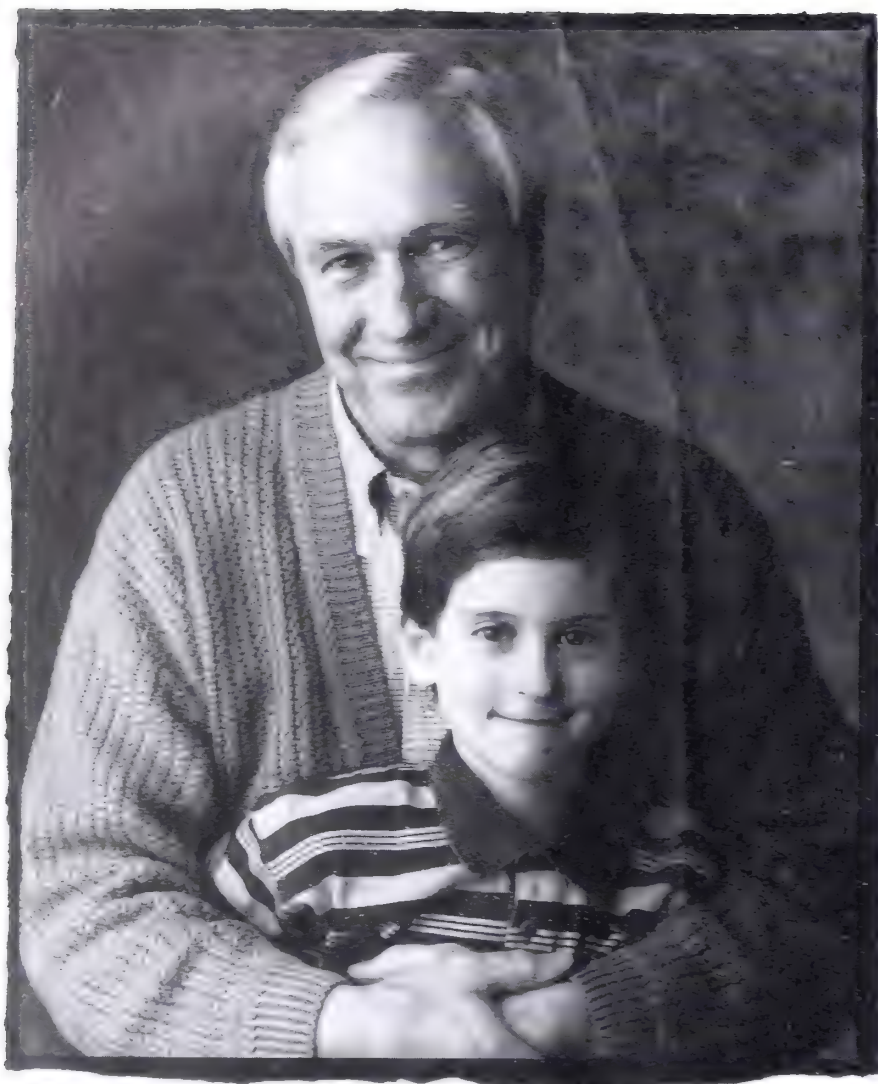


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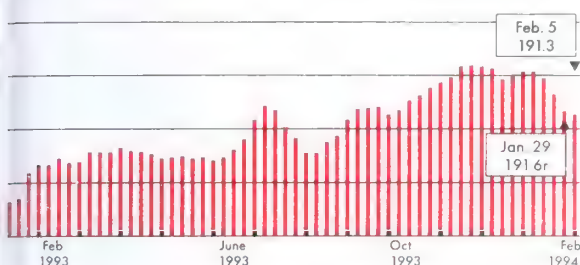
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BusinessWeek Index

PRODUCTION

Change from last week: -0.2%
Change from last year: 2.5%

1967=100 (four-week moving average)

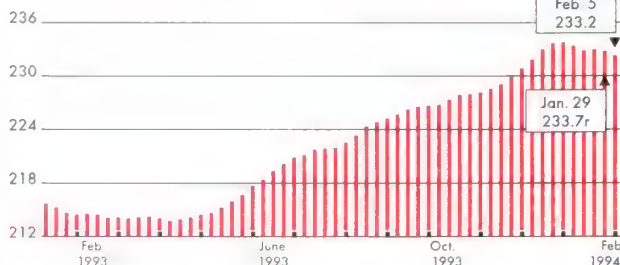


The production index slipped a bit during the week ended Feb. 5. Seasonally adjusted output of electric power, steel, crude-oil refiners, coal, and lumber all rose. Rail-freight traffic and auto and truck production were unchanged from the previous week, while data for paper and paperboard remain unavailable. Before calculation of the four-week moving average, the index rose to 193.2, from a low of 191.2 in the previous week and 188.8 in the week ended Jan. 22.

BW production index copyright 1994 by McGraw-Hill Inc.

LEADING

Change from last week: -0.2%
Change from last year: 8.2%



The leading index declined during the week ended Feb. 5. Higher bond yields, a result of the Feb. 4 tightening of monetary policy, led the decline. A rise in large-business failures and slower growth in M2 and real estate loans also contributed. Stock prices increased, and the growth rate of materials prices was much faster. Before calculation of the four-week moving average, the index dropped to 232, from 233.2 in the previous week.

Leading index copyright 1994 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(2/12) thous. of net tons	1,805	1,859#	0.6
\$ (2/12) units	143,924	151,453r#	19.4
CS (2/12) units	122,175	120,655r#	29.5
RIC POWER (2/12) millions of kilowatt-hours	61,955	63,872#	7.1
E-OIL REFINING (2/12) thous. of bbl./day	13,419	13,201#	2.7
(2/5) thous. of net tons	20,333#	21,029	2.1
BOARD (2/5) thous. of tons	NA#	784.1	NA
(2/5) thous. of tons	NA#	803.0	NA
ER (2/5) millions of ft.	488.1#	489.2	2.5
FREIGHT (2/5) billions of ton-miles	21.0#	21.6	-1.9

es: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFP, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (2/16)	104	108	1.19
MARK (2/16)	1.72	1.76	1.63
POUND (2/16)	1.48	1.46	1.45
FRANC (2/16)	5.87	5.97	5.53
DIAN DOLLAR (2/16)	1.35	1.34	1.26
FRANC (2/16)	1.45	1.48	1.50
AN PESO (2/16)	3.105	3.105	3.094

es: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
(2/16) \$/troy oz.	383.500	380.750	16.0
SCRAP (2/15) #1 heavy, \$/ton	139.50	139.50	27.4
STUFFS (2/14) index, 1967=100	220.7	217.9	9.9
ER (2/12) ¢/lb.	90.9	92.8	-12.9
INUM (2/12) ¢/lb.	61.5	60.8	9.8
T (2/12) #2 hard, \$/bu.	3.80	3.81	1.6
IN (2/12) strict low middling 1-1/16 in., ¢/lb.	71.96	72.25	30.8

es: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Kansas City market, Memphis market

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. #Southern Forest Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (2/11) S&P 500	470.94	478.75	5.5
CORPORATE BOND YIELD, Aaa (2/11)	7.03%	6.93%	-9.3
INDUSTRIAL MATERIALS PRICES (2/11)	96.5	96.5	-4.3
BUSINESS FAILURES (2/4)	323	316	-11.7
REAL ESTATE LOANS (2/2) billions	\$417.5	\$419.4r	1.9
MONEY SUPPLY, M2 (1/31) billions	\$3,533.8	\$3,538.6r	2.6
INITIAL CLAIMS, UNEMPLOYMENT (1/29) thous.	413	363	21.5

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Jan.) total index	114.4	113.9r	4.8
CAPACITY UTILIZATION (Jan.)	83.1%	82.9%r	2.7
HOUSING STARTS (Jan.) annual rate, thous.	1,294	1,571	10.5
RETAIL SALES (Jan.) billions	\$181.0	\$182.0	7.0

Sources: Federal Reserve, Commerce Dept., Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/31)	\$1,136.5	\$1,136.4r	9.9
BANKS' BUSINESS LOANS (2/2)	282.3	278.8r	-0.7
FREE RESERVES (2/2)	1,226r	1,599r	4.9
NONFINANCIAL COMMERCIAL PAPER (2/2)	159.9	154.7	8.3

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (2/15)	3.49%	3.24%	3.06%
PRIME (2/16)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (2/15)	3.55	3.49	3.18
CERTIFICATES OF DEPOSIT 3-MONTH (2/16)	3.47	3.42	3.11
EURODOLLAR 3-MONTH (2/11)	3.43	3.20	3.13

Sources: Federal Reserve, First Boston

INVESTMENT

CHALLENGE

LEADERS

Week 2 • Closing Values as of 2/09/94

Here are the leaders in the Fidelity Investment Challenge. On February 1, over 5,500 amateur investors began trading with a fictional \$250,000 portfolio. Over the course of the next 2 months, they will buy, sell, or short sell any stock listed on the NYSE, AMEX, or OTC.

At the end of competition on March 31, 1994, the participant with the highest equity value will win a 1994 Lincoln Mark VIII plus \$2,000 in cash. Other winners will win cash, financial software and Market Master t-shirts for their performance.



THE TOP 25 AMATEUR INVESTORS

Rank	Investor	Ctry. State	Equity Value
1	Paul Ellison	Clearwater, FL	\$340,288
2	Raymond Olson Jr	Ocean Grove, NJ	\$321,566
3	David Mitchell	Orlando, FL	\$321,024
4	Jay Christiansen	Bradenton, FL	\$318,106
5	Julia M. Russell	Orange City, FL	\$316,588
6	Arnold Bembem	Eatontown, NJ	\$312,612
7	Roland Delafuente	Hollywood, FL	\$307,758
8	James Reynolds	Newington, CT	\$306,995
9	Edwin Soto	Boston, MA	\$303,224
10	Robert Vaccaro	Millis, MA	\$302,719
11	William Babcock	Columbus, OH	\$300,755
12	Guy Longest	Clarksville, IN	\$300,361
13	Doug Hammond	Corinth, MS	\$298,822
14	Daryl Jones	Westmont, IL	\$298,254
15	Robert Gallagher	Winchester, MA	\$297,474
16	Richard Barron	Rockville, MD	\$296,153
17	Alan Miller	Long Beach, CA	\$295,325
18	Robert Sonius	Nicholson, PA	\$293,867
19	Michael Vendetti	Providence, RI	\$293,065
20	Scott Testa	Blue Bell, PA	\$292,876
21	Rita Latham	Arlington, TX	\$290,765
22	John E Bragdon	Temple Hills, MD	\$289,183
23	Samual Vardanian	Orlando, FL	\$288,274
24	Don Johnson	Duluth, MN	\$287,827
25	Steven Blitz	Baltimore, MD	\$287,374

THE COMPETITION UP CLOSE

Average Portfolio Value	\$243,892
Average Percentage Increase	-2.44%
Average Number of Trades Used	11
Portfolio Value of the 100th Ranked Account	\$265,965

MOST ACTIVELY TRADED STOCKS

Spectrum Information Tech	5,045,763
North American Biologicals	1,550,659
Sheffield Medical Technology	1,477,544

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With Special Thanks To



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Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abraham & Straus 38
Addison-Wesley Publishing 84
Advanced Computer Services 106
Air Canada 40
Air Partners 40
Airbus Industrie 40
Alghanim Industries 50
Alkermes 65
Allen-Bradley 106
Alliance Capital Management 90
American Airlines 48
America Online 80
America West Airlines 40
AMR 48
Apple Computer 84, 120
Arby's 102
Arco 47
Arthur Andersen 55
AT&T 29, 80
Autolatina 50
Aviall 40
Avitas 40

B

Babbitt Brothers Trading 70
Bailey Banks & Biddle 38
Baker & McKenzie 90
Banc One 47
Bank of Tokyo 29
Barre 38
Beak Consultants 65
Bear Stearns 90
Bell Atlantic 32, 33
BellSouth 33
Binney & Smith 80
BlackRock 96
Blockbuster Entertainment 32, 55
Body Shop 55
Borden 47
Boston Chicken 55
Broderbund Software 80, 84
Brooks Brothers 38

C

Canadian Tire 38
Cartwright & Goodwin 90
Caterpillar 26
Chevrolet 34
Chiron 65
Chrysler 34, 48, 50
Circle K 40
Citroën 50
Clayton, Dubilier & Rice 47
Comcast 33
Compaq Computer 6, 120
Compton's NewMedia 80
Computer Curriculum 80
Continental Airlines 40
Copier Services Unlimited 106
Crayola 80

CS First Boston 33

Curriculum TV 80
C O Bar Livestock 70

D

Daewoo 74
Data General 106
Davidson & Associates 80, 84
Dean Witter Reynolds 114
Decision Development 80
Dell 120
Digital Equipment 106
Dreyfus 94
DRI/McGraw-Hill 50
Dun & Bradstreet 23

E

Eastman Kodak 106
Edmark 88
Education Alternatives 94
Electronic Arts 80, 84
Eli Lilly 36

F

Federated Department Stores 38
Fiat do Brasil 50
Fidelity 94, 114
First Financial 96
FirstTier Financial 47
Ford 26, 50
FSM 50
Fujitsu 65, 120

G

GE 33, 74
Genentech 65
General American Investors 96
General Foods USA 47
General Magic 29
Georgia-Pacific 70
Glaxo 36
GM 29, 34, 50
Goldman Sachs 26
GPA Group 40
Grantchester Securities 38
Greenhaven Associates 94
GTE 80

H

Hallmark Cards 80
Hasbro 78
Hewlett-Packard 47, 106
Home Shopping Network 33
Honda 34
Honeywell 106
Humongous Entertainment 80

I

IBM 106
Integrated Medical Networks 36
IT Network 80
ITT 47

J

J.C. Penney 8
J.D. Power 34
Johnson & Johnson 47
Jostens Learning 80, 86
Jundt 96

K

KFC 55
Kids 'R' Us 8
Kmart 8
Knowledge Adventure 80
Kraft General Foods 47

L

Learning 80
Lehman Brothers 90
L.H. Alton 78
Lind-Waldock 112
Lotus Development 80
LucasArts Entertainment 80

M

Maclean Hunter 47
Matsushita 29, 33
Mattel 78
Mazda 50
MCA 33
McDonald's 55
McGraw-Hill 24, 80, 90
McKesson 36
Mellon Bank 94
Mercedes-Benz 50
Merck 36
Merrill Lynch 26, 112
Microelectronics & Computer Technology 65
Micrografx 80
Microsoft 80
Minnesota Educational Computing 80
MMS International 24
Mohr Davidow Ventures 80
Montgomery Ward 38
Morgan Stanley 90, 102
Morningstar 96, 114
Motorola 26, 120

N

NBC 33
NEC 29, 65, 120
Nintendo 80
Nippon Telegraph & Telephone 120
Nissan 50
Northern Telecom 106

O

Optical Data 80
Outboard Marine 94

P

Packard Bell 80
PaineWebber 50, 55, 94
Paramount Communications 6, 32, 33, 36, 55, 80
Parsons 84
PCS Health Systems 36
PepsiCo 55
Pfizer 36
Philips 74
Prodigy Services 80

Prudential Securities 106

Q

QVC 6, 32, 33

R

Rauscher Pierce Refsnes 102
Raychem 26
Robert Fleming 90
Rogers Communications 36
Russell Reynolds 36

S

Samsung Group 74
Sanctuary Woods Multimedia 80
Saturn 34
Scudder Stevens & Clark 114
Sega 65, 80
Seligman & Latz 36
Shoney's 102
SI Diamond Technologies
Simon & Schuster 3
Smith Barney Shear
Sony 74
Southeastern Thrift Bank 96
Southwest Airlines
Southwest Forest Industries 40
Spirit of Discovery
SRI International 65
Standard & Poor's Synergen 65

T

Tandy 102
TeleCommunication
Templeton 96
Time Warner 32, 33
Toshiba 65, 74
Toyota 34, 50
Toys 'R' Us 8
T. Rowe Price 102
Turner Broadcasting
TWA 6
Tyco Toys 78

U

Unisys 106
Universal Pictures 3
USA Network 32
U.S. Surgical 47

V

Viacom 6, 32, 33
Virtual Universe 65
Volkswagen 50
Volpe Welty 80

W

Walt Disney 33
Wang Laboratories
Westinghouse 47
Wheat First Securities
WMX Technologies

X

Xerox 106

Y

Young & Rubicam 1

Z

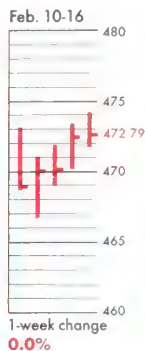
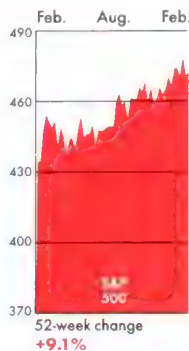
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Investment Figures of the Week

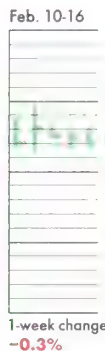
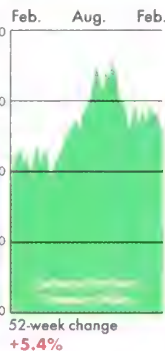
SENTARY

ocks made little progress in
e of the Fed's Feb. 4 move
e up short-term interest
specially upsetting to the
was the increase in the rate
ear Treasuries—which were
ed to emerge unscathed
e tightening. But the all-im-
put-call ratio is signaling
assault on the Dow's 4000
kyo stocks fell as talks be-
he U.S. and Japan broke
ver excluding U.S. compa-
n competing in the cellular
market in Japan.

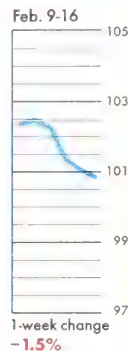
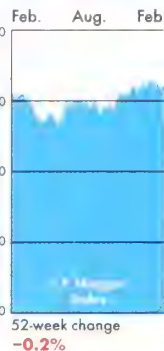
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	52-week
DOW JONES INDUSTRIALS	3937.3	0.1	18.9
DOW JONES COMPANIES (S&P MidCap Index)	181.1	-0.2	15.9
DOW JONES COMPANIES (Russell 2000)	266.0	0.3	21.7
DOW JONES COMPANIES (Russell 3000)	273.5	0.0	10.5

INTERNATIONAL STOCKS	Latest	% change (local currency) Week	52-week
DOW JONES FINANCIAL TIMES 100	3417.7	-0.3	21.5
DOW JONES NIKKEI INDEX	19,052.1	-4.0	12.0
DOW JONES TO (TSE COMPOSITE)	4424.1	-0.9	29.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.34%	3.31%	2.97%
30-YEAR TREASURY BOND YIELD	6.46%	6.42%	7.10%
S&P 500 DIVIDEND YIELD	2.52%	2.51%	2.85%
S&P 500 PRICE/EARNINGS RATIO	21.7	22.0	22.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	465.4	464.7	Positive
Stocks above 26-week moving average	53.3%	54.0%	Negative
Speculative sentiment: Put/call ratio	0.52	0.46	Positive
Insider sentiment: Vickers sell/buy ratio	1.66	1.60	Positive

INDUSTRY GROUPS

WEEK LEADERS	% change 4-week	52-week
MINING	10.6	3.9
TELECOMMUNICATIONS	10.2	27.9
ENGINEERING AND CONSTRUCTION	9.2	12.7
CAPITAL MANAGEMENT	8.2	61.6
FREE TIME	7.7	9.6

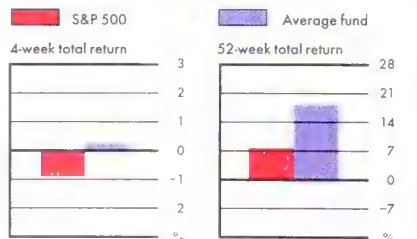
WEEK LAGGARDS	% change 4-week	52-week
MINING	-14.5	59.4
HEALTH-CARE SERVICES	-13.4	-18.2
UTILITIES	-9.5	-24.0
BANKS AND LOANS	-8.6	-6.0
TECHNOLOGY	-8.4	-10.2

Strongest stock in group	% change 4-week	52-week	Price
ROADWAY SERVICES	12.4	-2.1	70 1/2
MATTEL	16.1	44.4	26 1/8
FOSTER WHEELER	17.9	32.4	40 3/8
COLUMBIA/HCA HEALTHCARE	8.5	64.9	40
OUTBOARD MARINE	12.9	2.0	25 1/8

Weakest stock in group	% change 4-week	52-week	Price
AMERICAN BARRICK RESOURCES	-17.9	54.2	25 1/4
ALZA	-19.6	-37.1	23 1/8
WMX TECHNOLOGIES	-15.3	-31.6	24 7/8
GREAT WESTERN FINANCIAL	-14.1	0.0	17 1/2
PFIZER	-14.3	-9.9	57 7/8

MUTUAL FUNDS

RS	%	LAGGARDS	%
4-week total return		Four-week total return	
LATIN AMERICA GROWTH A	19.4	UNITED SERVICES GOLD	-16.2
ORDER LATIN AMERICA	14.1	LEXINGTON STRATEGIC INVESTMENTS	-16.0
RILL LYNCH LATIN AMERICA A	13.3	MONITREND GOLD	-11.7
52-week total return		52-week total return	
LEXINGTON STRATEGIC INVESTMENTS	134.0	PILGRIM CORPORATE UTILITIES	-16.7
ORDER LATIN AMERICA	104.7	FORUM INVESTORS STOCK	-13.3
GAN STANLEY INSTL. EMERGING MARKETS	95.8	STEADMAN OCEANOGRAPHIC TECHNOLOGY	-11.5



ACTIVE PORTFOLIOS

Amounts as of the present of \$10,000 as of one year ago in portfolio	Foreign stocks	Gold	Treasury bonds	U.S. stocks	Money market fund
Investment	\$14,339	\$11,725	\$11,617	\$11,169	\$10,207
Investment	+0.21%	+1.17%	+0.17%	+0.31%	+0.04%

on this page are as of market close Wednesday, Feb. 16, 1994, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

Feb. 15. Mutual fund returns are as of Feb. 11. Relative portfolios are valued as of Feb. 15. A more detailed explanation of this page is available on request.

WHY JAPAN MUST OPEN UP

Sticky business, trade wars. During the cold war, all the U.S. and Soviet Union demanded of each other was that they keep their missiles in their silos and their soldiers behind the lines. National interest was based on external military and political behavior. Borders were crucial.

Not so in trade wars. The blunt talk at the Clinton-Hosokawa summit highlights a radical new change in global affairs: America's foreign policy has become economic policy, and its national interest is inextricably intertwined with the internal workings of other countries. Japan, with its mercantilist policies, has long known this. Now, with this economic summit, the U.S. is signaling that it, too, is starting to learn.

President Clinton's instincts are to play the new game of geo-economics through free trade—note his strong support of NAFTA and GATT. He thinks open markets are the best means to boost competitiveness, promote growth, and generate jobs.

But the bedeviling trade deficit with Japan is challenging America's patience. For 20 years, Tokyo and Washington have been blaming each other for the problem. In the 1980s, an economically ascendant Japan lectured America about its low savings rate, its terrible budget deficits, and the pathetic quality of its products.

Now, in the 1990s, the roles are reversed, and a rebounding America is lecturing Japan about closed markets, domineering bureaucrats, and subordination of consumers to producers. Just as the U.S. felt threatened, so now does Japan.

Yet Japan was right in the 1980s, and the U.S. is right in the 1990s. In truth, the hectoring from Japan helped pressure America to do the right things to regain its competitive edge. The question now: Can the Administration play the same role and help Japan do the right thing and change? What Japan must realize is that opening its markets will help not only consumers but their protected industries, such as insurance, that need the stimulus of global competition.

MERCANTILISM, JAPANESE STYLE

Economic reforms of the required dimension are inherently cultural as well as political. It took the U.S. years to tame the budget and produce quality cars, and its citizens still don't save enough. It will take time for Japan to open its markets.

But open them they must. No nation can continue running \$135 billion in current account surpluses. Japan has used foreign sales to export most of its joblessness during its recession. The U.S., Europe, and other nations have lost jobs, production, and growth as a result of that mercantilist policy.

It is easy to see why many Japanese corporations oppose open markets. For decades, NEC Corp. dominated Japan's personal-computer market, along with No. 2 Fujitsu Ltd. Two years ago, Dell, Compaq, and Apple introduced discounting. Prices plummeted and sales to individuals soared for the first time. Today, Apple is No. 2 and NEC is in the red.

Competition can be threatening. That's why Japan has restricted access to the booming cellular phone market. The Ministry of Posts & Telecommunications has carved it up, handing the lush Tokyo region to Nippon Telegraph & Tele-

phone, forcing Motorola to join a Japanese company already committed to the homegrown NTT cellular standard. Now Motorola has only 13,000 subscribers vs. 1 million for NTT.

Motorola now must rely on U.S. Trade Representative Jeffrey Kantor. Kantor declared Japan in violation of a 1989 agreement and began proceedings that could result in higher tariffs for Japanese imports into the U.S. Washington hopes pressure will open up the cellular market.

Doing business in Japan is an exercise in political economy, not free-market competition. Each "win" in opening a market has a political component. Despite two decades of exhortation, there is no evidence that Japan is about to transform itself into anything remotely resembling an American-style, consumer-led, free-market society, notwithstanding good intentions of Prime Minister Morihiro Hosokawa.

WHAT AMERICA CAN DO

As President Clinton pursues free-trade initiatives where, Washington's primary goal with Japan must be to increase market share for specific U.S. products and industries. To that end, calm, polite, and calibrated pressure is in order. So far, Clinton has performed admirably. His verbal sal to paper over the failure of recent trade talks brings clarity and focus to the longstanding problem.

Now, he has to deliver. The Clinton Administration should avoid a public trade war of fierce words, defiant posturing, and the blunderbuss sanctions of wholesale tariffs and embargos. A vortex of retaliation is the last thing the U.S. economy, finally on a stable road of growth, needs right now.

A better way is to make access to the huge, open American market a quid pro quo for access to foreign markets. This is important not only for Japan but also for other countries, such as South Korea, that see Japanese mercantilism as an economic model to emulate.

Unless Japan opens its markets willingly, the U.S. has no choice but to negotiate through a calculated ratcheting of pressure. Here are the options:

- ☐ Deny Japanese commercial banks authority to operate in the U.S. as investment houses.
- ☐ Renegotiate free-trade zones for Japanese auto and parts makers.
- ☐ Terminate government construction contracts with Japanese companies.
- ☐ Bring antitrust suits against *keiretsu* in the U.S.
- ☐ Initiate more transfer pricing actions against Japanese multinationals.
- ☐ Investigate discrimination against women and minorities by Japanese companies in the U.S.

If it proves necessary, this policy of calibrated pressure could require the White House to coordinate measures with the Treasury, Commerce, the IRS, and the Federal Reserve to raise the price Japan pays here for keeping markets closed. In the post-cold war era, where foreign policy is economic policy, this sounds like a job for Robert Rubin's National Economic Council.



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take
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[What have we done for you l
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